INTERNATIONAL MONETARY FUND

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CAMBODIA

2013 ARTICLE IV CONSULTATION

February 2014

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2013 Article IV consultation with Cambodia, the following documents have been released and are included in this package:

- The **Staff Report** for the 2013 Article IV consultation, prepared by a staff team of the IMF, for the Executive Board's consideration on a lapse of time basis, following discussions that ended on November 15, 2013, with the officials of Cambodia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 9, 2014.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- An **Informational Annex** prepared by the IMF.
- A **Press Release** summarizing the views of the Executive Board.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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CAMBODIA

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION

January 9, 2014

KEY ISSUES

Context. Growth remains strong driven by robust exports, tourism, and construction, despite the recent floods and some slowdown during the 2013 national election. The outlook is favorable with renewed reform momentum after the elections but slow growth in Europe, the U.S. tapering, further extreme weather conditions, and sustained labor market instability continue to pose downside risks, while rapid credit growth and renewed pressure on deposits could undermine financial stability. The authorities have continued to implement past staff recommendations, including mobilizing domestic revenue, taking steps to strengthen monetary policy effectiveness, and implementing some of the 2010 Financial Sector Assessment Program (FSAP) recommendations.

Maintaining the momentum of fiscal consolidation. The fiscal position has improved driven by strong revenue performance. Fiscal consolidation should continue to rebuild government deposits—the only fiscal buffers—in view of the expected decline in grants, including by making the planned wage increases in 2014 a part of a broader civil service reform. Implementing the revenue mobilization strategy, better managing contingent liabilities, and continuing to reform public financial management are critical to rebuild and safeguard the fiscal space.

Containing macro financial risks and improving monetary policy effectiveness. Inflation is expected to remain low, but rapid credit growth, increasing bank flows from abroad, and the buoyancy of the real estate and construction sectors pose macro-financial risks. In light of recent deposit withdrawals, strengthening liquidity risk management is a priority. Containing credit growth including by expanding the base of the reserve requirements—the only monetary policy tool—once deposits stabilize, and better monitoring of real estate developments are needed to contain risks. Developing interbank and foreign exchange markets is necessary to enhance effectiveness of monetary policy operations, help reduce dollarization and allow for greater exchange rate flexibility. Further strengthening banking supervision and regulatory framework, and establishing a crisis management framework are also needed to maintain the stability of a rapidly changing financial sector.

Promoting economic diversification and inclusive growth. Continued improvement in human capital, including through education and training, infrastructure, and business climate, as well as further reductions in poverty and inequality, are essential for sustainable and inclusive growth.

Approved By
John Nelmes (APD) and Masato Miyazaki (SPR)

Discussions took place during November 4–15, 2013. The staff team comprised Ms. Karasulu (head), Mr. Feridhanusetyawan, Ms. Suphaphiphat (all APD), Ms. Wang (MCM), and Mr. Ahmed (Resident Representative). Ms. Waqabaca (OED) also participated. The team met with Minister of Economy and Finance Aun, National Bank of Cambodia Governor Chea, other senior officials, representatives of private sector and NGOs. The mission made a presentation to government officials on regional outlook and Cambodia's prospects. Ms. Lee (APD) provided assistance preparing the report and Ms. Dao (APD) provided research assistance with data and figures.

CONTENTS

OUTLOOK AND RISK

1. **Political Context**. The Cambodia People's Party (CPP) won the July election but the opposition Cambodia National Rescue Party (CNRP) refused to join the National Assembly citing voting irregularities and has been organizing mass demonstrations. In September, the Assembly has approved a new five-year term for Prime Minister Hun Sen and his new Cabinet.

2. **Growth.** Economic activity remains strong driven by robust exports, with garment exports helped by preferential access to European Union (EU), and tourism with more diversified destinations. (Figure 1, Table 1). Real estate and construction also expanded rapidly supported by fast credit growth. Foreign direct investment (FDI) remained strong partly driven by factories relocating from China and Vietnam. Despite these indicators, growth is expected to stay at 7 percent in 2013 due to the sluggish global recovery, recent floods, and a slowdown in activity during the election period. Growth is projected to pick up to 7¼ percent in 2014 in line with the global recovery and to 7½ percent in the medium term with improvements in infrastructure, competitiveness, and investment climate (Table 2).

3. **Inflation and credit.** Inflation is projected to stay around 3–4 percent during 2013–14 owing to projected stable commodity prices, once the impact of the recent floods on food prices subsides. Private sector credit has been growing by about 30 percent (y/y) on average in the last three years nearly doubling credit-to-GDP ratio to over 40 percent. While part of this is due to new banks entering the market, which increased bank flows from abroad, heightened competition in the system also contributed to rapid credit growth. In the process, lending rates and interest rate spreads have declined.

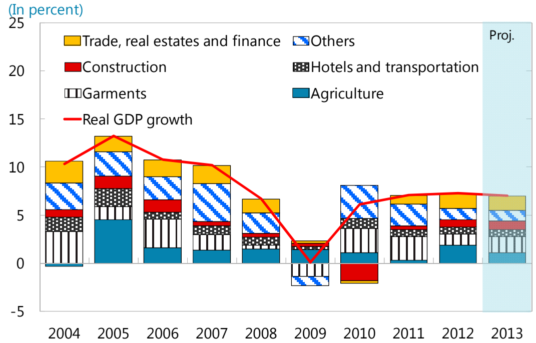
4. **External stability.** Despite robust exports and tourism, the current account deficit including official transfers is expected to stay flat at around 8½ percent of GDP in 2013 due to strong but moderating imports, and remains fully financed by FDI and official loan flows (Figure 2). The deficit is projected to decline to 5½ percent of GDP over the medium term with improved competitiveness and diversification of exports, and lower imports after the completion of large power projects (Table 3). Gross official reserves stood at US$3.6 billion in November, about 3½ months of prospective imports. Although this reserve coverage appears to be adequate considering the long-term nature of Cambodia's external debt, the high degree of dollarization (foreign currency deposits are more than 1½ times of gross official reserves) suggests that a higher level of reserves—than that suggested by the reserve adequacy estimates—may be warranted. Consistent with this stable external position, the real effective exchange rate has remained broadly flat since 2008 and in line with fundamentals, suggesting little evidence of a fundamental misalignment.[1]

[1] The exchange rate regime is classified as other managed. The CGER estimates show that the exchange rate is broadly in line with fundamentals, although being subject to large measurement errors, given weak data, rapid structural change, and high degree of dollarization. The macroeconomic balance approach shows 3 percent overvaluation while the equilibrium real exchange rate approach indicates 10 percent overvaluation. However, the external sustainability approach suggests the exchange rate is broadly in line with the norm. The current account norm is estimated at around 5 percent of GDP over the medium term, broadly in line with projections. The reserve adequacy estimates range from 2 to 10 months of imports depending on the cost of holding reserves.

Figure 1. Cambodia: Strong Growth with Downside Risks

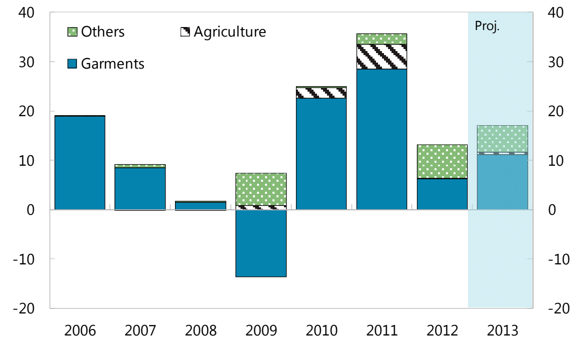
Economic growth remains strong supported by garment exports, tourism, construction, trade, and agriculture.

Contribution to Growth, 2004–13
(In percent)



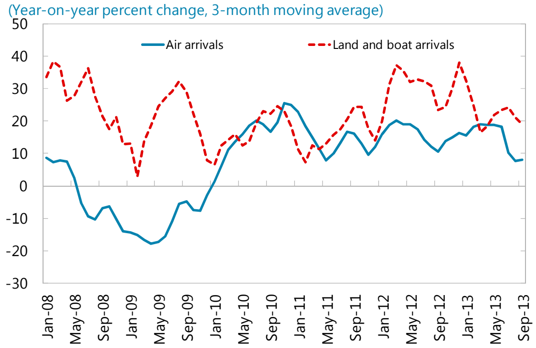
Exports are picking up owing to preferential access to E.U.

Contribution to Export Growth
(In percent)



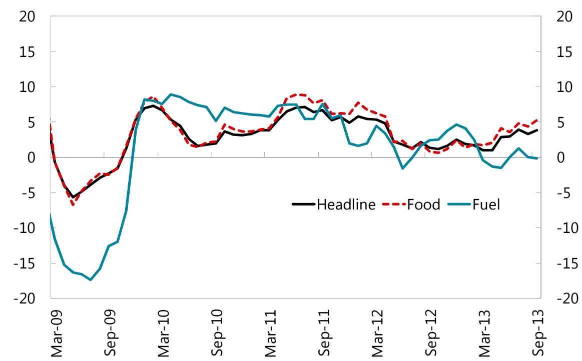
Tourist arrivals have been robust, particularly from the region.

Tourist Arrivals, 2008–13
(Year-on-year percent change, 3-month moving average)



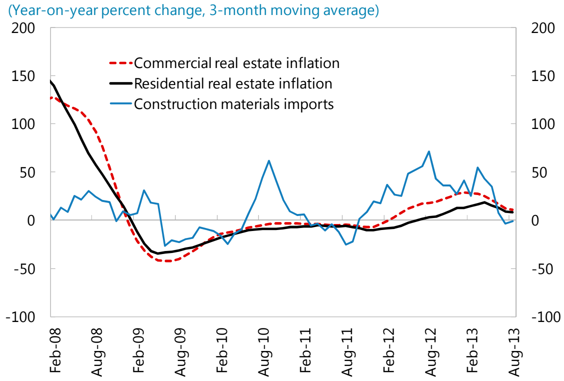
...while stable food and fuel prices kept inflation low.

Inflation, 2009–13
(Year-on-year percent change)



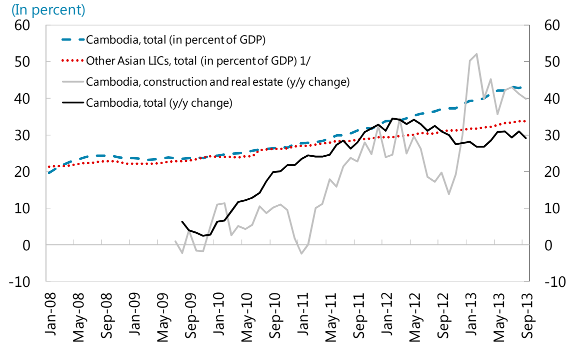
The recovery in the real estate and construction sector continues...

Real Estate Prices
(Year-on-year percent change, 3-month moving average)



...however, rapid credit growth, particularly to these sectors, points to growing financial stability risks.

Credit to Private Sector
(In percent)



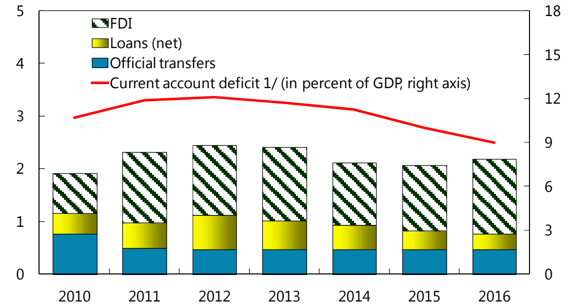
1/ Average of Bangladesh, Lao P.D.R, Mongolia, Myanmar, Nepal, Papua New Guinea, and Timor-Leste.

Sources: Cambodian authorities; IMF's World Economic Outlook; and IMF staff estimates.

Figure 2. Cambodia: Stable External Position

The current account deficit is fully funded by FDI, grants and loans, and is projected to narrow over the medium term…

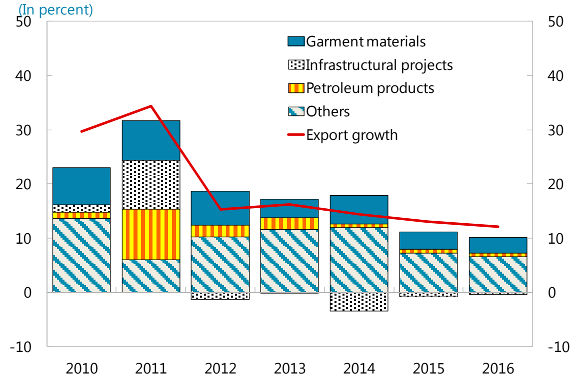
Current Account Deficit and Financing Flows, 2010–16
(In billions of U.S. dollars)



1/ Current account balance excluding official transfers.

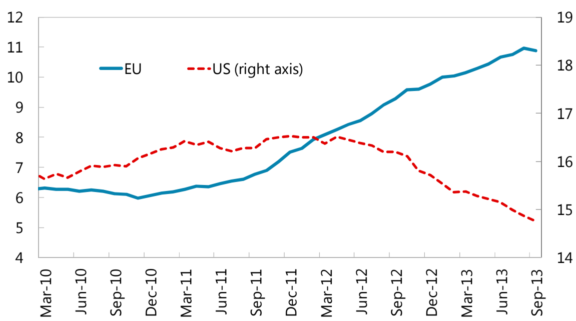
…as large infrastructure projects are completed.

Contribution to Import Growth, 2010–16
(In percent)



Cambodia's share in the E.U. garment market continues to increase…

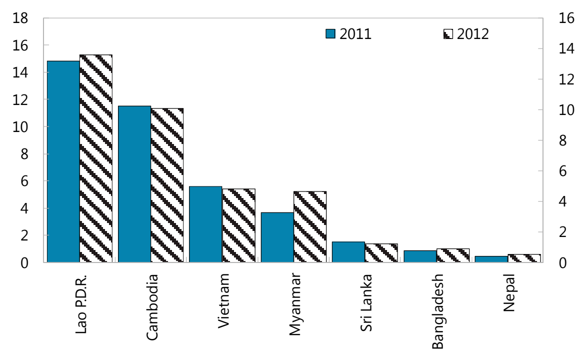
Garment Export Market Share, 2010–13 1/
(In percent, 12mma)



1/ Share of Cambodia in Asian LICs' (Bangladesh, Cambodia, Sri Lanka, and Vietnam) garment exports.

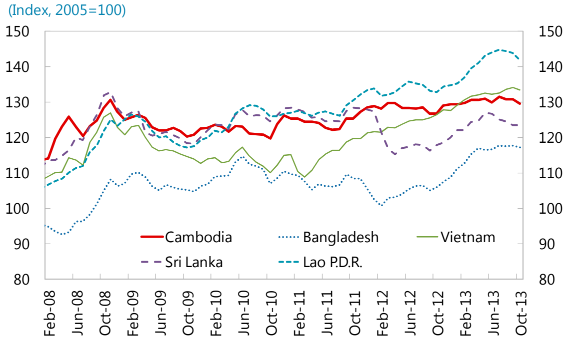
…and FDI flows have been strong.

Foreign Direct Investment
(In percent of GDP)



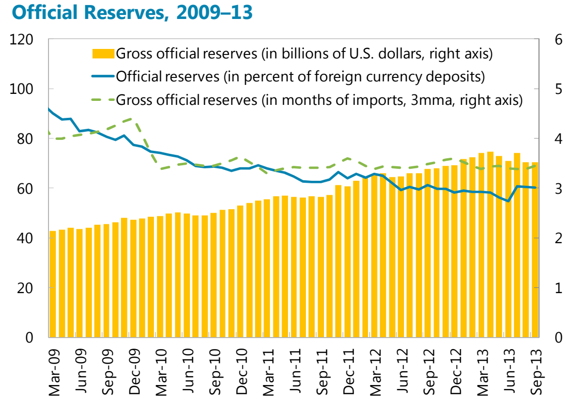
The real effective exchange rate has been broadly flat in the post-2008 period.

Real Effective Exchange Rate, 2008–13
(Index, 2005=100)



Official reserves continue to grow, covering about 3½ months of imports.

Official Reserves, 2009–13



Sources: Cambodian authorities; Eurostat, IMF's World Economic Outlook database, and IMF staff estimates.

5. Risks and spillovers. The outlook is subject to downside risks. Slow European growth could affect garment exports, although the impact is likely to be limited as reallocating factories from the region, such as China and Vietnam, brought their supply contracts to benefit from Cambodia's lower production costs and preferential access to the EU market. Cambodia's direct exposure to international capital markets remains limited, but U.S. tapering as well as slower growth in China may have significant spillovers to the region, and affect Cambodia's FDI and tourism. The potential increase in dollar funding costs in the post-tapering period could also lead to a stop in foreign bank financing from the region. In light of the fragile confidence in the banking sector following large deposit withdrawals during the election, renewed pressure on deposits could undermine financial stability. On the domestic front, further extreme weather conditions could affect the rural poor especially hard, and dent exports and tourism, while prolonged labor disputes could disrupt garment production. On the positive side, improving power and rural infrastructure as well as more diversified FDI and a renewed reform momentum after the elections could provide a boost to exports and growth.

Cambodia: Risk Assessment Matrix (RAM)1/

Likelihood	Potential Impact
Protracted economic and financial volatility, especially for emerging markets	
High	**Medium**
Exit from unconventional monetary policy could trigger capital outflows from emerging markets. The potential increase in dollar funding costs could lead to a stop in foreign bank financing.	The direct impact is limited because of Cambodia's small exposure to the international capital markets, and most capital inflows to Cambodia are FDI-related. However, should the volatility affect the countries in the region, tourism and FDI could be affected.
Global oil price shock	
Low	**Medium**
Continued geopolitical events in the Middle East could raise global fuel prices.	With no fuel subsidy, any increase in world oil prices would create domestic inflationary pressure.
Protracted period of slower European growth	
High	**Medium**
Slow growth in Europe could reduce Cambodia's garment exports.	The impact would be mitigated by continued utilization of preferential trade access to the E.U. market.
Labor market instability	
Medium	**High**
Continued incidences of labor strikes could disrupt garment production.	Labor market instability could create a drag on exports and growth, and if prolonged, could weaken Cambodia's competitiveness.
Extreme weather	
Medium	**High**
Extreme weather conditions (drought or flood) could lower agricultural production.	Extreme weather shocks would adversely affect growth and have serious welfare implications on farmers and rural population.
Fiscal risks	
Medium	**Medium**
Slow progress in fiscal refroms could hamper fiscal consolidation.	Limited progress in mobilizing revenue and pressures to increase spending would hamper the efforts to rebuild fiscal space and jeopardize fiscal sustainability.
Financial sector risk	
Medium	**High**
Continued rapid credit growth and proliferation of real estate financing could jeopardize macroeconomic and financial stability.	Excessive risk taking by banks to compete for market share amid a growing role of foreign financing could result in a deterioration of asset quality, increase in financial sector vulnerabilities and liquidity risks, and a decline in confidence during a downturn. High degree of dollarization limits the lender-of-last resort capacity of the central bank.

1/ It shows events that could materially alter the baseline path. The RAM reflects staff's views on the source of risks and overall level of concerns as of the time of discussions with the authorities.

6. Policy response and the authorities' views. Should downside risks materialize, the policy space to support growth is limited as fiscal consolidation has been slower than expected since 2010. In case of adverse shocks, this limited room for additional spending should be allocated to high impact expenditures on development priorities in education, health, and infrastructure. At the same time, high dollarization limits effectiveness of monetary policy and the declining reserve coverage in terms of foreign currency deposits highlights the limitations on the National Bank of Cambodia's (NBC) lender of last resort capacity to respond to shocks. This limited policy space underscores the need for vigilance in containing financial sector risks before they materialize. However, should risks to the financial sector materialize NBC should use its available lender of last resort capacity, while expediting the implementation of the crisis management framework, including by enhancing bank resolution powers. The authorities broadly agreed with staff views on the exchange rate assessment, outlook, risks and the limited policy space. However, they remained cautiously optimistic that the floods' impact would be less than projected and expected GDP growth to exceed 7 percent in 2013.

They also viewed external factors posing less risk to growth than domestic factors, such as prolonged labor disputes.

POLICY DISCUSSIONS

A. Maintaining the Momentum of Fiscal Consolidation

7. Context. Buoyant domestic demand and revenue collection efforts improved the fiscal position (Figure 3, Tables 4–5) making the 2013 budget revenue targets reachable. Domestically-funded spending is also expected to remain within the budget envelope as the increase in civil service salaries in September 2013 (the lowest salaries were increased up to the minimum wage of US$80 per month) had a limited fiscal impact (0.1 percent of GDP). Meanwhile, delays in donors' reporting of foreign-funded spending continue to hamper the timely monitoring of capital expenditure. The fiscal deficit, excluding grants, in 2013 is expected to narrow further by about ½ percentage points (ppt) of GDP. Despite this progress, the stock of government deposits in terms of GDP is projected to decline slightly to around 4¾ percent.

8. The 2014 Budget. The budget envisages an additional 25 percent increase in wage bill, particularly for low salary bands, to promote human resource development in public administration and improve public services in line with the authorities' priorities in the Rectangular Strategy Phase Three (RSIII). To finance the increasing wage bill, the targets for tax and nontax revenues are raised (¾ ppt of GDP higher than the 2013 budget target) and other spending kept broadly constant in terms of GDP, while creating some savings to replenish government deposits.

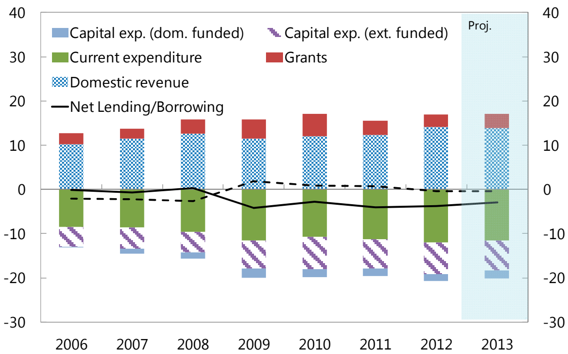
- Plans to further reduce the wage gap should be part of a broader civil service reform to avoid jeopardizing fiscal consolidation. The large fiscal cost (½ percent of GDP) would increase Cambodia's wage bill to 5½ percent of GDP in 2014, beyond those of the peers as a share of domestic revenue and current expenditure. Therefore, further salary increases should target containing the wage bill to around 5 percent of GDP over the medium term by expediting civil service reforms to improve productivity of the civil service. The authorities acknowledged these challenges and have established two working groups for wage and civil service reforms to contain the wage bill while improving the capacity and accountability of the civil servants.
- Targeting an increase in government deposits despite spending pressures is well placed, but there is room to increase the envisaged savings (Riel 80 billion) further. Since government savings provide the only fiscal buffer against adverse shocks, striving to maintain the stock of government deposits at least broadly constant in terms of GDP remains appropriate. This would require additional savings of about Riel 170 billion (less than ¼ ppt of GDP) which could be achieved by stepping up revenue collection efforts to exceed the target and improving spending efficiency. The authorities shared the staff's views and reaffirmed their commitment to rebuilding fiscal buffers. They concurred there is room for additional revenue, for example by increasing excise taxes and expanding their base, rationalizing vehicle tax, collecting more tax debt, expanding the tax net, and strengthening customs administration, including by combating smuggling.

Figure 3. Cambodia: Maintaining the Momentum of Fiscal Consolidation

The fiscal position has continued to improve and fiscal consolidation is broadly on track.

Fiscal Balance

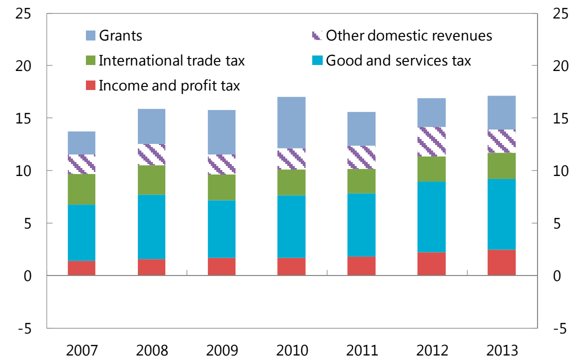
(In percent of GDP)



Revenue collection has been strong driven by buoyant economic activity and improvements in tax administration.

Fiscal Revenue

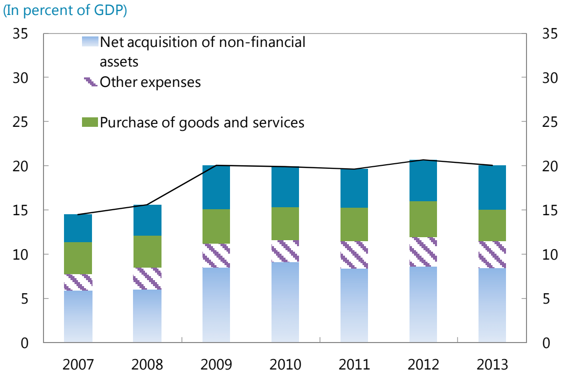
(In percent of GDP)



Meanwhile, government spending has been prudent in line with the budget.

Goverment Spending

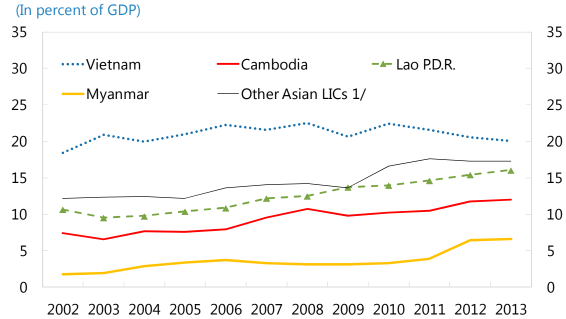
(In percent of GDP)



However, Cambodia's tax collection remains low by regional standards, suggesting room for further improvement.

Tax Collection in Asian LICs

(In percent of GDP)

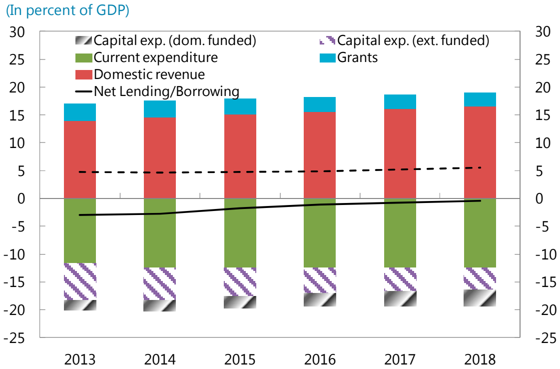


Sources: Cambodian authorities; and IMF staff estimates.
1/ Average of Bangladesh, Bhutan, Mongolia, and Nepal.

Further revenue mobilization is critical to sustain fiscal consolidation and rebuild fiscal buffers over the medium term.

Medium-term Fiscal Outlook

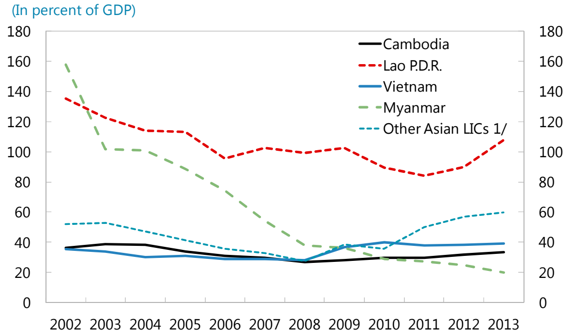
(In percent of GDP)



External public debt remains low despite large disbursement of loans in recent years.

External Public Debt

(In percent of GDP)



1/ Average of Bangladesh, Mongolia, and Nepal

Sources: Cambodian authorities; IMF's Government Finance Statistics and World Economic Outlook; Globalintegrity.com; and IMF staff estimates.

9. Revenue Mobilization Strategy (RMS). The government's commitment to continue raising domestic revenue by ½ ppt of GDP annually over the medium term would help safeguard fiscal sustainability. With overall current spending kept broadly constant in terms of GDP, the fiscal deficit (excluding grants) could be reduced by about 3 ppt of GDP from 2013 to 2018, while providing resources for currently donor supported development spending, including in health and education, in light of the expected decline in grants. In the process government deposits can be replenished to about 5½ percent of GDP by 2018, while limiting public external debt to less than 30 percent of GDP to strengthen Cambodia's ability to absorb future shocks.[2] In this regard, it is essential to adopt the RMS in 2014, which is based on a three-pronged approach: (i) improving revenue administration, (ii) implementing fair and efficient tax policies, and (iii) strengthening governance. The authorities agreed with staff's recommendations and indicated their near term priorities to reform excise taxes and the VAT, expand the base of the formal (nonestimated) tax regime, and rationalize exemptions and tax holidays. In this context, the plans to set up taxpayer services, modernize IT systems, strengthen capacity of tax officers, and improve governance could start a virtuous cycle. In the medium term, the introduction of income tax, expansion of property tax base, and better administration of nontax revenues would further improve fiscal performance.

10. Safeguarding fiscal space. Careful management of contingent liabilities related to public private partnerships (PPP) remains critical to contain fiscal risks. The authorities have made progress in collecting more information about the PPP projects with technical assistance (TA) from the World Bank. The latest estimate shows that the size of investment projects was around 25 percent of GDP in 2012, lower than previously estimated. The work on estimating the related contingent liabilities is still ongoing. Meanwhile, the Ministry of Economy and Finance (MEF) has established an investment department as a central PPP-monitoring unit and a debt management department to manage contingent liabilities and the associated risks. The authorities concurred that these risks need to be better managed and indicated their plans to continue strengthening the institutional capacity, including by seeking further TA. They also noted plans to adopt a ceiling on PPP guarantees and list all contingent liabilities and guarantees in annual budget laws to help improve fiscal transparency.

11. Public Finance Management (PFM). The adoption of a new chart of accounts with improved budget classifications in 2015 should pave the way for the implementation of the Financial Management Information Systems (FMIS) that is being prepared. In the meantime, expediting the development of an effective internal audit mechanism remains important for successful implementation of FMIS, planned roll out of program budgeting and the relocation of decision making and accountability to ten line ministries. In addition, strengthening donor coordination for timely reporting of donor support would help improve planning and monitoring of capital spending. The authorities broadly agreed with these priorities, requested continued TA support for successful implementation of PFM reforms and noted plans to fully implement program budgeting starting with the education sector to improve spending efficiency.

[2] The Debt Sustainability Analysis confirms Cambodia's low risk of debt distress.

12. Arrears. The authorities noted that they have been pursuing discussions with the Russian Federation and the U.S. to resolve Cambodia's debt arrears and would prefer to use most of the debt forgiveness toward development goals. However, an agreement has not been reached.

B. Improving Monetary Policy Effectiveness and Containing Macro Financial Risks

13. Context. The only monetary policy tool is the reserve requirements, which have been raised in September 2012 by ½ ppt to 12½ percent on foreign currency deposits. However, bank funding from abroad is not subject to any prudential limits, escapes monetary control, and could stop with tapering in the U.S., leading to volatile liquidity and credit conditions. Large deposit withdrawals during the election (10 percent of total deposits), which highlight the fragile confidence in the banking sector, reduced banks' excess reserves substantially (Table 6), but these deposits started to return to the banking system in October. Furthermore, the high degree of dollarization and the absence of an interbank market, which contribute to high precautionary excess reserves, limit the NBC's control over monetary conditions and its lender-of-last resort capacity. Although recent financial soundness indicators (Table 7) do not reveal any immediate concern, Cambodia's banking sector is facing old and new risks from a crowded banking system, rapid credit growth, increasing foreign bank funding, greater real estate exposure, and stretched supervisory capacity (Figure 4 and Box 1). Therefore, discussions focused on containing these macro financial risks and developing the interbank and the foreign exchange markets to improve monetary control. Continuing with the implementation of the recommendations of the 2010 FSAP (Table 8) and ongoing TAs remains essential, as well as strengthening the Anti Money Laundering/Combating the Financing of Terrorism (AML/CFT) regime to safeguard financial stability.

14. Multi-pronged approach. Although low inflation and below potential growth do not point to an immediate need to tighten monetary policy—via higher reserve requirements—especially in light of the continued fiscal consolidation and recent deposit withdrawals, steps on multiple fronts are needed to contain macro financial risks and safeguard financial stability.

- More targeted supervision of liquidity risks would improve the resilience of the system against potential deposit withdrawals or sudden reversal of foreign funding, especially in the absence of a formal interbank market. The broad definition of the liquid asset ratio (LAR) overstates true liquidity conditions, as the recent experience highlighted, and calls for better monitoring of truly useable liquidity buffers.[3] This should be complemented with contingency plans by banks and the NBC to address potential liquidity pressures, including by expediting the planned revision of standing facilities[4] and improving liquidity forecasting in line with recent

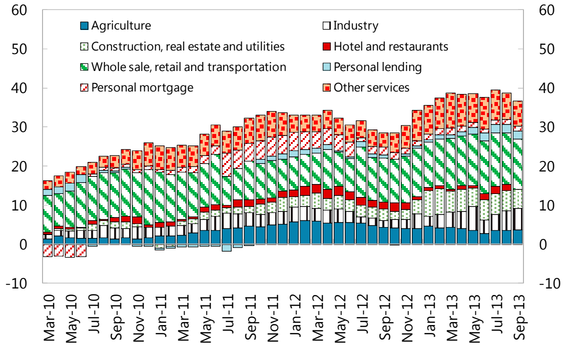
[3] The LAR is defined as the ratio of liquid assets to weighted deposits, where the liquid assets include cash and gold, net deposits with banks and NBC, including required and excess reserves, and net loans within one month of maturity. Some of these assets are not readily available on call.

[4] With TA support from the World Bank, the NBC is planning to re-launch the existing overdraft facility as a standing facility to meet short term liquidity requirements.

Figure 4. Cambodia: Rapid Credit Growth and New Challenges

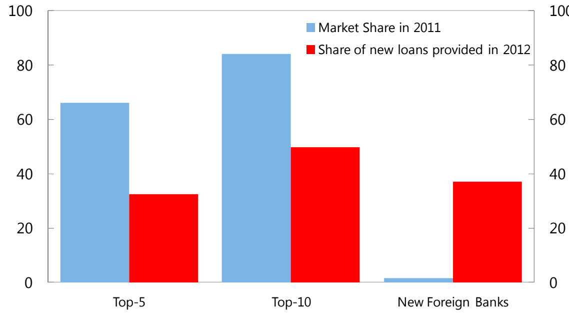
Credit growth has been persistently high for the past three years…

Contribution to Credit Growth
(In percent)



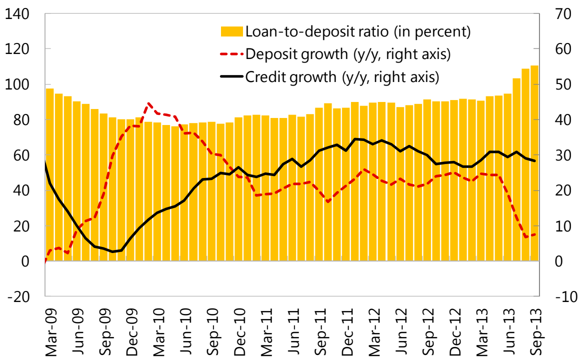
…partly driven by rapid expansion of new entrants which fund themselves from abroad.

Releative Shift of Market Share: New Banks
(In percent)



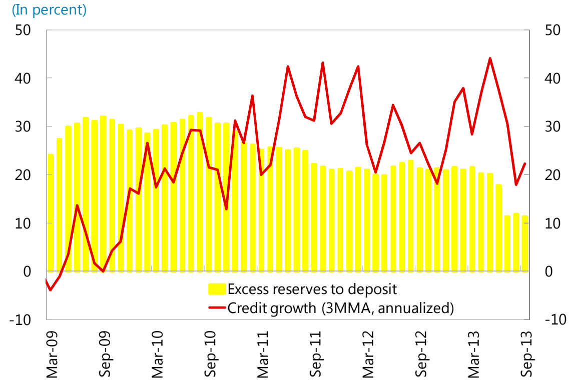
In the process the loan-to-deposit ratio has continued to increase…

Deposit and Credit Growth, 2008–13



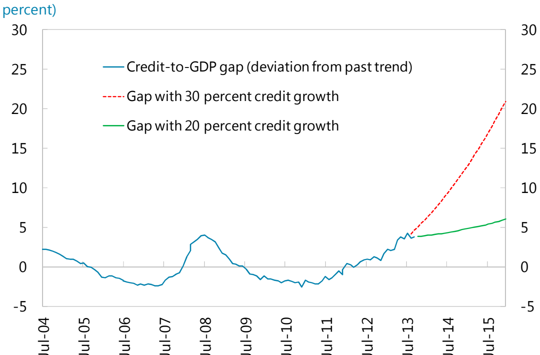
..and excess reserves were reduced.

Credit to the Economy and Excess Reserves, 2008–13
(In percent)



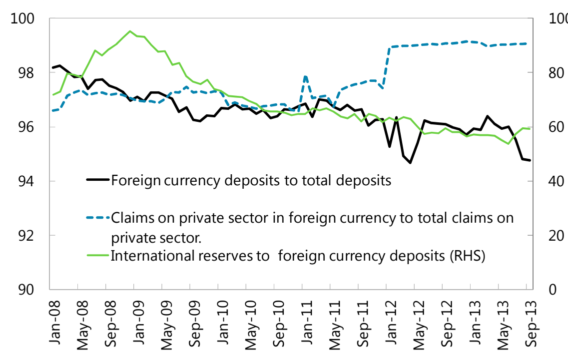
If the current pace of credit growth continues, credit-to-GDP gap would rapidly widen, surpassing the 2008 boom.

Cambodia: Credit Gap
(In percent)



Meanwhile, the degree of financial dollarization remains persistently high.

Dollarization, 2008–13
(In percent)



Sources: Cambodian authorities; and IMF staff estimates.

Box1. Financial Sector Developments and Risks

Cambodia has witnessed a fast paced financial deepening in recent years. Credit-to-GDP ratio has nearly doubled in the last three years, surpassing peers and diverging from past trends of sustainable financial deepening. In addition, intensifying competition for market share has increased banks' risk appetite, especially for smaller and mid-sized banks which expanded faster from a relatively small base, potentially deteriorating quality of loan portfolios. Despite fast credit growth, financial access remains limited to about 12 percent of the population suggesting more exposure to a relatively small group of creditors, intensifying concentration risks.

Entry of new banks has accelerated credit expansion. Foreign banks that started operations since 2011 contributed to more than one-third of total new lending in 2012, often with funding from abroad, which tripled in 2012 and unlike domestic liabilities is not subject to reserve requirements, the only monetary policy tool.

Rapid credit growth amid a shifting funding structure compounds potential liquidity risks. Domestic deposit growth has not kept pace with credit growth. As a result, excess reserves as a share of deposits have gradually declined from their peak of 30 percent (mid-2010) to around 10 percent in recent months, notwithstanding the dip due to recent deposit withdrawals. In the process, the loan-to-deposit (LTD) ratio trended upwards to over 100 percent, a level considered high even by emerging market standards.

Fast expansion of the real estate sector point to emerging financial stability risks. Although the lack of reliable housing price data constraints a complete analysis, land prices have increased by over 10 percent (yoy) and loans to construction and real estate grew by over 44 percent (yoy) in September; imports of construction materials surged and construction approvals for residential units alone quadrupled in 2012, and loan-to-value ratios (LTV) are showing an upward drift from 60–70.

Proliferation of real estate financing from the shadow banking system adds to overall risks. Some real estate developers are reportedly offering real estate loans at competitive interest rates, effectively competing with banks. However, their funding sources remain largely obscure and beyond regulatory and supervisory oversight. Although the younger demographics and a rising middle class would support some demand growth, supply lags and exuberance often lead to the overshooting of construction booms, as experienced by many economies.

MCM TA. In this context, the recent swap agreement with the Bank of International Settlements would provide more room (US$200 million) to respond to liquidity shocks.

- Fully enforcing the reserve requirements to include bank funding from abroad in the reserve base would help contain credit growth and improve monetary control. This should be accompanied by close monitoring of maturity mismatches for early signs of increasing roll-over risks. Should expansion of required reserve base prove insufficient to contain credit growth, consideration should be given to introducing LTD ratio limits as well as higher risk provisioning for new loans, especially for high risk sectors.

- Better monitoring of real estate sector developments is needed, including by strengthening reporting requirements for all construction activity and real estate sales. Should recent price and activity trends intensify, the NBC could introduce LTV limits, especially in fast growing segments of the real estate market. The proliferation of shadow banking activities by real estate developers calls for strengthening their regulation, including for licensing and reporting of funding sources.

The authorities broadly agreed with staff's assessment and indicated their plans to revisit the definition of LAR. They also noted that large excess reserves reflected precautionary motives by banks and proved useful during the deposit withdrawals. However, they preferred continued monitoring of foreign bank flows and credit growth before taking further measures, including enforcing reserve requirements on foreign funding and requested TA in macroprudential measures, such as LTDs and LTVs. They shared concerns regarding weaknesses in monitoring real estate developments, which requires coordination among several agencies (e.g. MEF and Ministry of Land) to support NBC's efforts to improve real estate data collection.

15. Interbank and foreign exchange markets. The introduction of negotiable certificates of deposit (NCDs) by the NBC both in U.S. dollar (USD) and Khmer Riel (KHR) is a first step toward developing the interbank market and laying the groundwork for market-based monetary policy operations.[5] Subscriptions have been limited so far, partly due to deposit withdrawals and reportedly unattractive pricing. Further consultations with the banking community would be needed to improve their attractiveness, including by differentiating their pricing from that of NBC's deposit facility. Although exchange rate stability has been a hallmark for sustaining demand for domestic currency, going forward, the development of money and foreign exchange markets should allow for more exchange rate flexibility. In this regard, encouraging state-owned enterprises to source their foreign currency from commercial banks instead of the NBC would also help catalyze market development. Finally, the NBC is preparing to conduct a dollarization survey to help formulate policies to promote the use of local currency. The authorities noted that the NCDs would require time to be widely adopted by the banking sector. They also emphasized the importance of exchange rate stability for maintaining the demand for domestic currency, and considered establishment of interbank and foreign exchange markets as a prerequisite to more effectively address dollarization in the medium term.

16. Risk-based supervision. The NBC's on-site supervision is increasingly relying on risk-based targeted inspections rather than full-scale examinations.[6] In view of the limited supervisory resources, focusing on emerging risks and strengthening internal training would improve supervisory effectiveness. In this regard, stepping up efforts in monitoring LTV ratios, underwriting and valuation standards for real estate and construction loans would be important, as well as concentration, related party and credit risks, to preempt excessive risk taking. Improving the quality of off-site supervision by enhancing the analytical skills and improving data quality will also be vital in strengthening banking supervision. The emergence of nonresident loans and deposits also warrants close monitoring, including for AML/CFT purposes. In March 2013, the authorities adopted the AML/CFT national strategy, which sets out a 5-year action plan to address the deficiencies identified by the Financial Action Task Force (FATF).

17. Supervisory capacity. Despite continued improvement through recruitment, training, and TA, rapid expansion of the banking system, including through three new bank licenses in 2012, and the transition to risk-based supervision has continued to put additional burden on the already stretched supervisory capacity. In this context, the 2010 FSAP recommendation of imposing moratorium on new bank licensing remains appropriate. The authorities indicated that implementing a formal moratorium may signal a closed-door policy to investors, but they

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[5] The maturities range from 2 weeks to one year with interest rates equal to those on NBC's deposit facilities.

[6] By October in 2013, the NBC has completed on-site inspection of 13 banks including top five banks; five are rated as "satisfactory", and eight are "fair" according to a rating scale of good, satisfactory, fair, unsatisfactory and poor.

recognized the capacity constraints and reiterated their commitment to maintain a tight stance on new bank licensing and encourage potential applicants to merge with existing banks.

18. Crisis prevention and management. Strengthening the financial crisis management framework is critical in managing systemic risks and minimizing potential fiscal costs. In February, the NBC, the MEF, and the Securities Exchange Commission of Cambodia (SECC) signed a Memorandum of Understanding (MoU) on establishing a policy level Working Group (WG), which also led to the formation of a technical Core Team (CT). Going forward a two track and time-bound approach should target strengthening coordination for crisis prevention and signing of a second MoU on crisis resolution: while the CT explores the types of risk-appropriate joint vulnerability exercises and the information sharing needs, the WG should focus on identifying and clarifying the responsibilities of respective agencies in preventing and resolving crisis. In return, these deliberations should inform the role of respective agencies in the joint vulnerability exercises, identify further areas for analysis, and help develop contingency plans. In parallel, the NBC should expedite improvements to the Prompt Corrective Action framework in line with FSAP recommendations. The authorities agreed with the urgent need to establish a crisis management framework and reiterated their commitment to move forward with the process. As a first step, with TA support from the World Bank, they plan to discuss a draft memorandum on crisis management among the agencies.

C. Promoting Competitiveness and Inclusive Growth

19. Context. Cambodia has made good progress in achieving the Millennium Development Goals (Table 9). Rapid growth in the past decade contributed to a substantial decline in poverty from about 50 percent in 2007 to around 21 percent in 2011. However, a large segment of the population continues to live near the poverty line and growth continues to rely on a narrow economic base, contributing to economic vulnerability. Efforts to increase value-added and diversify the economy remain constrained by low education levels and skill shortages, as well as infrastructure bottlenecks and weaknesses in business climate. On the other hand, the relatively open trade and investment regime and proximity to other ASEAN countries point to a high potential in terms of trade and inward investment. Early signs of manufacturing diversification are evident in recent FDI trends, which is likely to be reinforced with the implementation of Asian Economic Community in 2015 and supported by increased electricity supply and multinational firms' efforts to diversify their supply chains. Against this background, the authorities noted that promoting competitiveness and improving human capital as well as further reducing poverty and inequality remain the top priorities in their recently adopted RS III to sustain inclusive growth.[7]

20. Promoting competitiveness. Cambodia's competitiveness has improved over time, but it remains concentrated around low value-added garment and agricultural products due to relatively

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[7] The RS III, which serves as a framework for the 2014–18 national development plan, emphasizes four priorities: (1) developing human resources to ensure competitiveness; (2) developing physical infrastructure and improving trade facilitation; (3) promoting agriculture, including crop, livestock, fisheries, and agro-industry, and (4) strengthening governance and capacity of public institutions.

low wages and productivity (Box 2). Going forward, this alone would not be sufficient to sustain growth. In order to accelerate diversification and improve competitiveness, continued improvements in human capital, including through education and training, infrastructure, and the business climate are needed. In this regard, the reform agenda by the Ministry of Commerce to reduce the regulatory burden for businesses while improving governance and accountability of government agencies (including by strengthening the anti-corruption and AML frameworks) would ease constraints on doing business. Increasing agricultural productivity and further improving rural infrastructure will also help increase competitiveness in agriculture.

21. Improving human capital. Cambodia has made substantial progress in education access, but there is room to improve education outcomes, which is essential to move up the value-added chain and make growth more inclusive (Box 3). The increase in education spending in the 2014 budget, partly reflecting higher teacher salaries will help contribute to human capital development. Nonetheless, Cambodia's public spending on education is low relative to peers, but the room to increase spending by relying solely on budgetary resources is limited. Therefore, the near term priority should be improving efficiency and reallocating spending within the budget envelope. A new initiative, such as establishing a national training fund, could be considered over the medium term, but this would require successful implementation of public finance reforms, particularly by improving tax administration and spending efficiency.

22. Data statistics. Improving the quality and timeliness of economic and financial data would facilitate better formulation of macroeconomic policies and informed decisions by the private sector. In view of the increasing foreign funding of the private sector, including through the banking system, the authorities should start collecting data on private sector debt to monitor and address the associated risks.

Box 2. Cambodia's Export Competitiveness and the Implications of AEC 2015

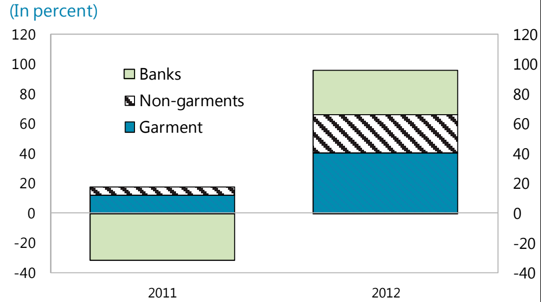
Cambodia's export-led growth model presents an opportunity to benefit from the ASEAN Economic Community (AEC) if exports can be diversified. Exports contributed on average more than 50 percent to Cambodia's GDP growth over the past decade and are expected to remain the key driver of growth going forward. While the United States and the European Union (EU) are the primary destinations for Cambodia's main export item, garments, total exports to ASEAN have also grown substantially over the last decade accounting for 12 percent of the country's total exports at end-2012. Rubber and woods are the main export products to ASEAN, and represent ½ and about 3 percent of the region's total imports of these commodities, respectively. Although, the elimination of tariffs and nontariff barriers by 2015 could help enlarge Cambodia's markets for these products initially, the existing trade structure points to the need to diversify exports for further trade expansion.

Cambodia's comparative advantage is concentrated in a few types of products, most of which have low value-added. Compared to the rest of ASEAN, Cambodia's exports is the second least diversified, only after Brunei. Based on revealed comparative advantage indices, Cambodia has strong comparative advantage in world markets in ready-to-wear garments, wood, and footwear, mainly due to its relatively low wages. These products constitute only a small share of ASEAN's imports limiting the benefits from market expansion, while recently increasing market share in vegetables and rubbers point to better prospects in regional markets. The product space analysis also indicates that Cambodia's opportunity to expand its currently competitive export products into new clusters remains a challenge as garments and vegetables do not have close connectivity with other higher income-potential products.

However, AEC could become a catalyst in diversifying Cambodia's production and moving toward a higher income potential export base. Cambodia's central location within ASEAN could help attract FDI in more diversified manufacturing to have tariff-free access to regional markets as well as to Everything but Arms initiative of the EU, while benefiting from low wage advantage. The ongoing diversification of regional supply chains could also help increase FDI in search for tariff-free access to a larger ASEAN market. Early signs of this trend have already emerged with rapid growth of FDI in nongarment sectors.

Contribution to FDI growth by Sector, 2011-12*

(In percent)



* The data is FDI flows by approval and excludes large power plant projects.
Sources: Data provided by the authorities.

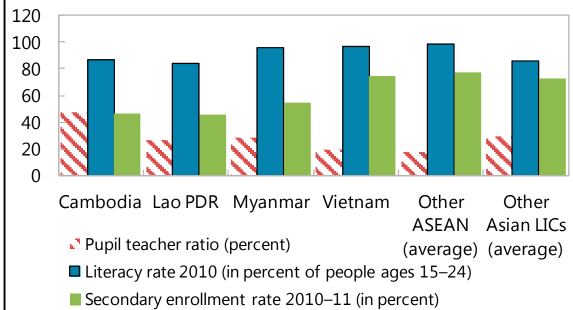
Addressing infrastructure bottlenecks and labor skill gaps while improving the business climate are essential to realize the potential benefits from AEC 2015. While macroeconomic and financial stability remain essential to reap the benefits from larger regional markets, leveraging Cambodia's central location within ASEAN would require improving transportation infrastructure, power supply and trade facilitation. Although the free movement of skilled labor may in the short term address skill gaps— often cited as an impediment for industrial diversification— it also poses risks of losing already scarce skilled labor to more attractive labor markets in the region, highlighting the need for continuous improvements in human capital through education and training. Improving the business climate, including by reducing impediments for doing business would also help make Cambodia a more attractive destination for investment to benefit from market expansion.

Box 3. Cambodia: Fiscal Policies for Human Capital Development

Cambodia has made substantial progress in improving education, but there is scope to catch up with peers. Despite increasing school enrollment and literacy rates and declining pupil teacher ratios in the last decade, further efforts are needed to improve education outcomes. Business surveys indicate that skill shortages and mismatches continue to hamper industrial upgrading, private investment, and economic diversification. Cambodia's public spending on education, including grants, has been broadly constant at about 2½ of GDP for the past five years, lower than in peers.

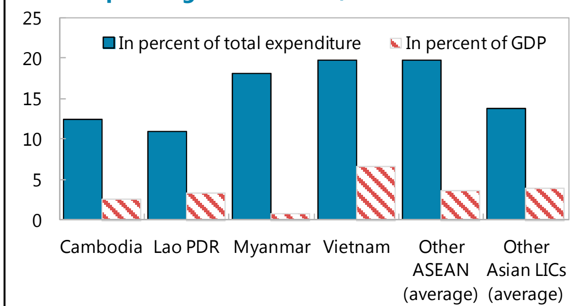
Raising labor productivity and providing adequate resources for education within a limited fiscal space pose challenges. Cambodia has relied on low skilled manufacturing and services to support its growth. As the country develops toward an emerging market economy, it will have to rely on more sophisticated production processes and high-skilled labor force to sustain its rapid growth and compete in global markets. However, the room to increase education spending by relying solely on budgetary resources is limited. Over the medium term the challenge is to balance the need to rebuild fiscal buffers to maintain fiscal sustainability, while providing room for more spending on education and maintaining adequate capital spending as grants decline.

Selected Asia: Education Indicators



Source: World Bank's *World Development Indicators.*

Public Spending on Education, 2009–11



Source: World Bank's *World Development Indicators.*

Given the budgetary constraints, the near-term priority would be reallocating resources within the budget envelope, improving spending efficiency, and securing more donor support for education. For example, the World Bank public expenditure review (2011) indicates that improving efficiency in health spending could generate some savings that can be used for other priority spending. Improving education quality without relying on additional resources, such as targeted programs to reduce dropout rates, strengthening program budgeting for education, and providing schools with greater autonomy to manage spending while holding them accountable for outcomes, would play an important role. Cambodia's spending efficiency for primary school enrollment is broadly comparable to its peers, but the scores for secondary school enrollment are lower, suggesting that any efforts to raise spending efficiency in secondary education could improve education outcomes as well.[1]

Over the medium term, new initiatives such as establishing a national training fund (NTF) could be considered to provide additional resources for training and skill development. NTFs in many countries are financed by enterprises, such as through taxes earmarked for training, although some may also be financed by public subsidies or donors. The earmarked-taxes are commonly based on payroll, and may include incentive schemes such as cost reimbursement, grants, and tax exemption or rebate, if firms provide training. In this context, the NTF requires sufficient administrative capacity and sound tax administration. In addition, the NTF is not a substitute for formal education and should not crowd out resources allocated to formal education or generate disincentives to formal education.

Successful implementation of public finance reform program would play a critical role in supporting human capital development. This would include enhancing revenue administration to provide more fiscal space, reallocating spending within budget envelope to human capital development, improving spending efficiency and effectiveness, and preparing the capacity to establish a training fund over the medium term.

1/ Herrera and Pang (2005) World Bank Policy Research Working Paper 3645.

STAFF APPRAISAL

23. Economic setting. Economic activity remains strong driven by robust exports, tourism, and construction despite recent floods and some slowdown during the election. Growth is projected to pick up to 7¼ percent in 2014 and reach 7½ percent over the medium term along with global recovery, improvements in infrastructure, competitiveness, and investment climate. Inflation is expected to remain low in 2013–14 due to stable food and fuel prices. The external position is stable notwithstanding a declining reserve coverage of foreign currency deposits, and the real effective exchange rate appears to be in line with fundamentals.

24. Risks and policy response. The U.S. tapering and slow European growth could expose Cambodia's favorable outlook to downside risks. On the domestic side, rapid credit growth and emerging risks in a fast changing financial landscape could undermine financial stability; extreme weather conditions could affect agriculture and growth, and labor market instability could disrupt garment production and exports. Should these downside risks materialize, low fiscal buffers would require any additional expenditure to be allocated to high-impact development spending.

25. Past recommendations. The progress made by the authorities in implementing past Article IV recommendations is welcome. They have improved revenue collection, formulated a revenue mobilization strategy, and strengthened public financial management, including improving the monitoring of contingent liabilities. They have also introduced NCDs to help develop the interbank market, improved financial supervisory capacity, and established an initial MoU to establish a financial crisis management framework. Continuous progress in many of these areas remains necessary and is reflected in the priorities of this Article IV consultation.

26. Fiscal policy. The strong fiscal performance has continued, driven by substantial improvement in revenue collection and prudent spending. Fiscal consolidation should continue to rebuild government deposits—the only fiscal buffers—in view of the expected decline in grants, to maintain long-term fiscal and debt sustainability, including by making the planned wage increases in 2014 a part of a broader civil service reform. Successful implementation of revenue mobilization strategy and careful management of contingent liabilities are needed to rebuild and safeguard the fiscal space. Continuing with public financial management reforms remains important to improve fiscal accountability and transparency.

27. Macro financial policies. Rapid credit growth, increasing foreign bank financing and the buoyancy of the real estate and construction sectors pose substantial macro financial risks especially in light of high dollarization, which limits monetary policy effectiveness and lender-of-last resort capacity. Steps on multiple fronts are required to contain credit growth and safeguard financial stability. Strengthening liquidity supervision and redefining the LAR to better capture banks' true liquidity conditions will improve their resilience to shocks. Fully enforcing the reserve requirements to include foreign funds in the reserve base would help contain credit growth. Should this fail to slow credit growth macro prudential measures such as LTVs and LTDs could be considered. Better monitoring of real estate developments, by collecting more data including on developer financing, is also needed to contain risks. Finally, the introduction of NCDs is a welcome first step toward market-based monetary operations. Going forward establishing an interbank and foreign exchange market would be needed to begin addressing dollarization, including by allowing more exchange rate flexibility.

28. Financial supervision. The transition to risk-based supervision and the rapid expansion of the banking system continued to put additional burden on the supervisory capacity, and in this context, the 2010 FSAP recommendation of imposing a moratorium on new bank licenses remains appropriate. In view of the limited resources, focusing on key emerging risks would improve the supervisory effectiveness. Strengthening the financial crisis management framework is critical in managing systemic risks and minimizing potential fiscal costs. The signing of an initial MoU between supervisory agencies is welcome, and should be used to enhance cooperation at the policy and technical levels, and expedite preparation of a second MoU on crisis resolution.

29. Diversification and inclusive growth. Cambodia has made good progress in achieving the Millennium Development Goals and reduced poverty substantially. Continued improvements in human capital, including through education and training, infrastructure, and business climate are needed to promote inclusive and sustainable growth and further reduce poverty and income inequality. Plans to reduce regulatory impediments to doing business are welcome, while improving education outcomes to catch up with peers would take longer term efforts. Given the budgetary constraints, the near term priority would be improving efficiency and reallocating spending within the budget envelope. New initiatives, such as establishing a national training fund, could be considered over the medium term following the successful implementation of PFM reforms.

30. Arrears. Good faith efforts to resolve external arrears are welcome and should continue.

31. It is recommended that the next Article IV consultation take place on the standard 12-month cycle.

Table 1. Cambodia: Selected Economic Indicators, 2010–14

	2010	2011	2012	2013	2014
			Est.	Proj.	
Output and prices (annual percent change)					
GDP in constant prices	6.1	7.1	7.3	7.0	7.2
(Excluding agriculture)	6.9	8.6	8.4	8.6	8.3
Real agricultural output	4.0	3.1	4.3	2.4	4.0
GDP deflator	3.0	3.4	1.3	3.1	3.1
Inflation (end-year)	3.1	4.9	2.5	4.1	3.0
(Annual average)	4.0	5.5	2.9	2.9	3.4
Saving and investment balance (in percent of GDP)					
Gross national saving	13.4	13.9	14.8	14.9	13.1
Government saving	0.5	1.0	1.7	2.2	2.2
Private saving	12.9	12.9	13.1	12.7	10.9
Gross fixed investment	17.3	22.0	23.5	23.5	21.5
Government investment	9.6	8.7	9.0	8.8	8.1
Private investment 1/	7.7	13.3	14.5	14.7	13.4
Money and credit (annual percent change, unless otherwise indicated)					
Broad money	20.0	21.4	20.9	17.7	23.7
Net credit to the government 2/	0.8	0.0	-1.5	-3.6	-2.6
Private sector credit	23.4	31.2	28.0	28.0	24.0
Velocity of money 3/	2.6	2.4	2.2	2.1	2.1
Public finance (in percent of GDP)					
Revenue	17.0	15.6	16.9	17.1	17.4
Domestic revenue	12.1	12.3	14.1	13.9	14.5
Of which : Tax revenue	10.1	10.1	11.3	11.7	12.2
Grants	4.9	3.2	2.8	3.2	2.9
Expenditure	19.9	19.6	20.7	20.1	20.2
Expense	10.8	11.3	12.0	11.6	12.4
Net acquisition of nonfinancial assets	9.1	8.3	8.7	8.5	7.8
Net lending (+)/borrowing(-)	-2.8	-4.1	-3.8	-3.0	-2.8
Net acquisition of financial assets	-0.3	0.0	0.6	0.4	0.1
Net incurrence of liabilities 4/	2.6	4.1	4.4	3.4	2.9
Of which: Domestic financing	0.9	0.7	-0.4	-0.4	-0.1
Balance of payments (in millions of dollars, unless otherwise indicated)					
Exports, f.o.b.	3,884	5,219	6,016	6,992	8,002
(Annual percent change)	29.7	34.4	15.3	16.2	14.4
Imports, f.o.b. 5/	-5,466	-7,260	-8,426	-9,789	-11,135
(Annual percent change)	21.7	32.8	16.1	16.2	13.7
Current account (including official transfers)	-441	-1,040	-1,233	-1,339	-1,430
(In percent of GDP)	-3.9	-8.1	-8.7	-8.6	-8.4
Gross official reserves 6/	2,653	3,032	3,463	3,824	4,327
(In months of prospective imports)	3.7	3.6	3.6	3.6	3.7
(In percent of foreign currency deposits)	67.9	64.0	58.2	55.4	50.7
External debt (in millions of dollars, unless otherwise indicated)					
Public external debt 7/	3,337	3,841	4,486	5,052	5,559
(In percent of GDP)	28.7	29.7	31.6	32.8	33.1
Public debt service	77	88	89	115	147
(In percent of exports of goods and services)	1.4	1.2	1.0	1.1	1.3
Memorandum items:					
Nominal GDP (in billions of riels)	47,102	52,154	56,711	62,559	69,195
(In millions of U.S. dollars)	11,255	12,890	14,118	…	…
Exchange rate (riels per dollar; period average)	4,185	4,046	4,017	…	…

Sources: Cambodian authorities; and IMF staff estimates and projections.

1/ From 2011, includes FDI related to public-private power sector projects.
2/ Net credit to the government refers to its contribution to broad money growth.
3/ Ratio of nominal GDP to the average stock of broad money.
4/ Includes statistical discrepancy.
5/ From 2011, includes imports related to public-private power sector projects.
6/ Excludes unrestricted foreign currency deposits held as reserves at the National Bank of Cambodia; starting in 2009, includes the new SDR allocations made by the IMF of SDR 68.4 million.
7/ Debt owed to the Russian Federation is valued at 0.6 rubles per U.S. dollar with the standard 70 percent discount.

Table 2. Cambodia: Medium-Term Macroeconomic Framework, 2010–18

	2010	2011	2012	2013	2014	2015	2016	2017	2018
			Est.			Proj.			
Output and prices (percent change)									
GDP at constant prices	6.1	7.1	7.3	7.0	7.2	7.3	7.3	7.5	7.5
GDP deflator	3.0	3.4	1.3	3.1	3.1	3.1	3.0	2.9	2.8
Consumer prices (end-year)	3.1	4.9	2.5	4.1	3.0	3.0	3.0	3.0	3.0
Saving and investment balance (in percent of GDP)									
Gross national saving	13.4	13.9	14.8	14.9	13.1	14.6	15.4	15.9	16.7
Government saving	0.5	1.0	1.7	2.2	2.2	2.6	3.1	3.6	4.1
Private saving	12.9	12.9	13.1	12.7	10.9	11.9	12.3	12.3	12.6
Gross fixed investment	17.3	22.0	23.5	23.5	21.5	22.0	22.0	22.0	22.2
Government investment	9.6	8.7	9.0	8.8	8.1	7.8	7.4	7.5	7.4
Private investment 1/	7.7	13.3	14.5	14.7	13.4	14.2	14.6	14.5	14.8
Public finance (in percent of GDP)									
Revenue	17.0	15.6	16.9	17.1	17.4	18.0	18.2	18.6	18.9
Domestic revenue	12.1	12.3	14.1	13.9	14.5	15.0	15.5	16.0	16.5
Of which: Tax revenue	10.1	10.1	11.3	11.7	12.2	12.7	13.2	13.7	14.2
Grants	4.9	3.2	2.8	3.2	2.9	2.9	2.7	2.6	2.4
Total expenditure	19.9	19.6	20.7	20.1	20.2	19.7	19.3	19.4	19.3
Expense	10.8	11.3	12.0	11.6	12.4	12.4	12.4	12.4	12.4
Net acquisition of nonfinancial assets	9.1	8.3	8.7	8.5	7.8	7.3	7.0	7.0	7.0
Of which: Domestically-financed	1.9	1.8	1.6	1.8	1.9	2.1	2.3	2.7	3.0
Net lending (+)/borrowing(-)	-2.8	-4.1	-3.8	-3.0	-2.8	-1.7	-1.1	-0.8	-0.4
Net lending (+)/borrowing(-) excluding grants	-7.8	-7.3	-6.6	-6.1	-5.7	-4.7	-3.9	-3.4	-2.8
Net acquisition of financial assets	-0.3	0.0	0.6	0.4	0.1	0.4	0.5	0.6	0.7
Net incurrence of liabilities	2.6	4.1	4.4	3.4	2.9	2.2	1.6	1.4	1.1
Domestic financing, net	0.9	0.7	-0.4	-0.4	-0.1	-0.4	-0.5	-0.6	-0.7
Government deposits	5.1	4.6	4.9	4.7	4.7	4.8	4.9	5.2	5.5
Balance of payments (in percent of GDP, unless otherwise indicated)									
Exports (percent change) 2/	29.7	34.4	15.3	16.2	14.4	13.0	12.2	11.7	11.2
Imports (percent change) 3/	22.7	33.9	16.4	16.5	14.0	10.3	9.9	10.3	10.2
Current account balance (including transfers)	-3.9	-8.1	-8.7	-8.6	-8.4	-7.4	-6.6	-6.1	-5.5
(Excluding transfers)	-10.7	-11.9	-12.1	-11.7	-11.3	-10.0	-9.0	-8.2	-7.5
Foreign direct investment 4/	6.8	11.5	11.3	10.4	8.6	8.1	7.9	7.9	7.4
Other flows 5/	-1.6	-1.1	0.1	0.5	2.7	1.9	1.4	1.3	1.0
Overall balance	1.3	2.4	2.6	2.2	2.9	2.6	2.7	3.1	2.9
Gross official reserves (in millions of U.S. dollars) 6/	2,653	3,032	3,463	3,824	4,327	4,820	5,382	6,069	6,781
(In months of next year's imports)	3.7	3.6	3.6	3.6	3.7	3.7	3.8	3.9	3.9
Public external debt (in millions of U.S. dollars) 7/	3,337	3,841	4,486	5,052	5,559	5,949	6,311	6,624	6,929
(In percent of GDP)	28.7	29.7	31.6	32.8	33.1	32.3	31.4	30.1	28.8
Public external debt service (in millions of U.S. dollars) 8/	77	88	89	115	147	162	215	228	213
(In percent of exports of goods and services)	1.4	1.2	1.0	1.1	1.3	1.3	1.5	1.5	1.2

Sources: Cambodian authorities; and IMF staff estimates and projections.

1/ Includes nonbudgetary, grant-financed investment, and, from 2011, public-private partnerships in the power sector projects.
2/ Excludes re-exported goods.
3/ Excludes imported goods for re-export; from 2011, includes imports related to public-private power sector projects.
4/ From 2011, includes FDI related to public-private power sector projects.
5/ Net official disbursements, exceptional financing, and official transfers.
6/ Excludes unrestricted foreign currency deposits held as reserves at the National Bank of Cambodia; starting in 2009, includes the new SDR allocations made by the IMF.
7/ Debt owed to the Russian Federation is valued at 0.6 rubles per U.S. dollar with the standard 70 percent discount.
8/ Cash basis, excluding the accumulation of arrears on debt owed to the Russian Federation and the United States.

Table 3. Cambodia: Balance of Payments, 2010–18

(In millions of U.S. dollars, unless otherwise indicated)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
		Est.				Proj.			
Current account (including official transfers)	-441	-1,040	-1,233	-1,339	-1,430	-1,373	-1,340	-1,340	-1,338
(Excluding official transfers)	-1,203	-1,533	-1,708	-1,814	-1,905	-1,848	-1,815	-1,815	-1,813
Trade balance	-1,582	-2,040	-2,410	-2,797	-3,132	-3,227	-3,326	-3,515	-3,743
Exports, f.o.b.	3,884	5,219	6,016	6,992	8,002	9,041	10,141	11,328	12,592
Of which: Garments	2,995	3,901	4,274	4,910	5,557	6,201	6,841	7,487	8,137
Imports, f.o.b. 1/	-5,466	-7,260	-8,426	-9,789	-11,135	-12,269	-13,466	-14,843	-16,335
Of which: Garments-related	-1,359	-1,757	-2,177	-2,455	-2,945	-3,287	-3,626	-3,968	-4,313
Petroleum	-485	-999	-1,147	-1,312	-1,375	-1,450	-1,546	-1,673	-1,817
Services and income (net)	168	194	417	672	889	1,009	1,107	1,258	1,446
Services (net)	697	889	1,158	1,399	1,680	1,861	1,971	2,101	2,229
Of which: Tourism (credit)	1,180	1,616	1,957	2,211	2,509	2,711	2,898	3,121	3,342
Income (net)	-530	-696	-741	-727	-791	-852	-864	-843	-783
Private transfers (net)	212	313	285	311	339	370	404	442	484
Official transfers (net)	762	493	475	475	475	475	475	475	475
Capital and financial account	584	1,345	1,606	1,683	1,917	1,854	1,890	2,016	2,038
Medium- and long-term loans (net)	393	487	648	534	459	353	292	279	243
Disbursements	436	536	694	607	556	462	450	448	447
Amortization	-43	-49	-46	-73	-97	-109	-158	-170	-204
Foreign direct investment 2/	762	1,484	1,598	1,611	1,459	1,500	1,598	1,737	1,795
Net foreign assets of deposit money banks 3/	-415	40	-330	-366	0	0	0	0	0
Unrestricted foreign currency deposit at NBC	-243	127	-256	-289	0	0	0	0	0
Commercial banks	-173	-87	-73	-77	0	0	0	0	0
Other short-term flows and errors and omissions	-155	-666	-310	-96	0	0	0	0	0
Overall balance	143	305	373	345	487	481	550	676	700
Financing	-143	-305	-373	-345	-487	-481	-550	-676	-700
Change in gross official reserves 4/	-161	-321	-388	-361	-504	-493	-562	-687	-712
Use of IMF credit	0	0	0	0	0	0	0	0	0
Debt restructuring	0	0	0	0	0	0	0	0	0
Accumulation of arrears	18	16	15	16	16	12	12	12	12
Memorandum items:									
Current account balance (in percent of GDP)									
Excluding official transfers	-10.7	-11.9	-12.1	-11.7	-11.3	-10.0	-9.0	-8.2	-7.5
Including official transfers	-3.9	-8.1	-8.7	-8.6	-8.4	-7.4	-6.6	-6.1	-5.5
Trade balance (in percent of GDP)	-14.1	-15.8	-17.1	-18.0	-18.5	-17.4	-16.5	-15.9	-15.5
Gross official reserves 5/	2,653	3,032	3,463	3,824	4,327	4,820	5,382	6,069	6,781
(In months of next year's imports)	3.7	3.6	3.6	3.6	3.7	3.7	3.8	3.9	3.9

Sources: Cambodian authorities; and IMF staff estimates and projections.

1/ From 2011, includes imports related to public-private power sector projects.

2/ From 2011, includes FDI related to public-private power sector projects.

3/ Includes unrestricted foreign currency deposits (FCDs) held as reserves at the National Bank of Cambodia (NBC).

4/ Excludes changes in unrestricted FCDs held as reserves at the NBC, and changes in gold holdings and valuation.

5/ Excludes unrestricted FCDs held at the NBC; starting in 2009, includes the new SDR allocations made by the IMF of SDR 68.4 million.

Table 4. Cambodia: General Government Operations, 2010–14 (GFSM 2001)

	2010		2011		2012			2013			2014
	Budget	Actual	Budget 1/	Actual	Budget	Jan-Aug Est.	Est.	Budget	Jan-Aug Prel.Est.	Proj.	Proj.
	(In billions of riels)										
Revenue	6,807	8,023	8,064	8,114	8,900	6,165	9,590	10,566	6,694	10,700	12,069
Of which: Nongrant	5,537	5,698	6,372	6,436	7,280	5,111	8,017	8,584	5,521	8,718	10,067
Tax	4,824	4,751	5,462	5,289	6,263	4,190	6,424	7,301	4,653	7,309	8,440
Income, profits, and capital gains	968	800	1,044	960	1,278	939	1,276	1,562	1,117	1,550	1,780
Good and services	2,744	2,792	3,192	3,123	3,624	2,396	3,815	4,204	2,605	4,205	4,910
International trade and transactions	1,112	1,159	1,226	1,206	1,361	855	1,333	1,535	932	1,554	1,750
Grants	1,270	2,325	1,692	1,678	1,620	1,054	1,572	1,982	1,173	1,982	2,002
Other revenues 2/	713	947	910	1,147	1,017	921	1,593	1,283	867	1,409	1,627
Total expenditure	8,114	9,363	9,543	10,236	10,431	6,529	11,740	11,661	6,836	12,557	13,993
Expense	5,167	5,068	5,851	5,888	6,518	3,945	6,818	7,365	4,105	7,259	8,570
Compensation of employees	2,146	2,135	2,379	2,290	2,735	1,695	2,660	3,092	1,845	3,149	3,829
Purchase of goods and services	1,594	1,742	1,954	1,962	2,045	1,112	2,310	2,234	1,168	2,234	2,506
Interest	120	143	140	160	171	107	305	256	125	256	282
Expense not elsewhere classified	1,307	1,050	1,379	1,476	1,566	1,031	1,543	1,784	967	1,620	1,953
Net acquisition of nonfinancial assets	2,947	4,295	3,692	4,348	3,913	2,584	4,922	4,296	2,732	5,299	5,423
Of which: Externally-financed	2,000	3,420	2,600	3,403	2,860	2,138	4,023	3,146	2,233	4,149	4,096
Net lending (+)/borrowing(-)	-1,307	-1,340	-1,479	-2,122	-1,531	-364	-2,150	-1,095	-143	-1,858	-1,924
Net acquisition of financial assets	-195	-125	-498	-3	-521	292	363	11	396	251	100
Net incurrence of liabilities 3/	1,112	1,215	981	2,119	1,010	656	2,514	1,106	538	2,109	2,024
Of which: External	880	924	860	1,779	1,010	1,068	2,350	1,106	1,119	2,109	2,024
	(In percent of GDP)										
Revenue	14.5	17.0	15.5	15.6	15.7	10.9	16.9	16.9	10.7	17.1	17.4
Of which: Nongrant	11.8	12.1	12.2	12.3	12.8	9.0	14.1	13.7	8.8	13.9	14.5
Tax	10.2	10.1	10.5	10.1	11.0	7.4	11.3	11.7	7.4	11.7	12.2
Income, profits, and capital gains tax	2.1	1.7	2.0	1.8	2.3	1.7	2.3	2.5	1.8	2.5	2.6
Good and services tax	5.8	5.9	6.1	6.0	6.4	4.2	6.7	6.7	4.2	6.7	7.1
International trade and transactions tax	2.4	2.5	2.4	2.3	2.4	1.5	2.4	2.5	1.5	2.5	2.5
Grants	2.7	4.9	3.2	3.2	2.9	1.9	2.8	3.2	1.9	3.2	2.9
Other revenues 2/	1.5	2.0	1.7	2.2	1.8	1.6	2.8	2.1	1.4	2.3	2.4
Total expenditure	17.2	19.9	18.3	19.6	18.4	11.5	20.7	18.6	10.9	20.1	20.2
Expense	11.0	10.8	11.2	11.3	11.5	7.0	12.0	11.8	6.6	11.6	12.4
Compensation of employees	4.6	4.5	4.6	4.4	4.8	3.0	4.7	4.9	2.9	5.0	5.5
Purchase of goods and services	3.4	3.7	3.7	3.8	3.6	2.0	4.1	3.6	1.9	3.6	3.6
Interest	0.3	0.3	0.3	0.3	0.3	0.2	0.5	0.4	0.2	0.4	0.4
Expense not elsewhere classified	2.8	2.2	2.6	2.8	2.8	1.8	2.7	2.9	1.5	2.6	2.8
Net acquisition of nonfinancial assets	6.3	9.1	7.1	8.3	6.9	4.6	8.7	6.9	4.4	8.5	7.8
Of which: Externally-financed	4.2	7.3	5.0	6.5	5.0	3.8	7.1	5.0	3.6	6.6	5.9
Net lending (+)/borrowing(-)	-2.8	-2.8	-2.8	-4.1	-2.7	-0.6	-3.8	-1.7	-0.2	-3.0	-2.8
Net acquisition of financial assets	-0.4	-0.3	-1.0	0.0	-0.9	0.5	0.6	0.0	0.6	0.4	0.1
Net incurrence of liabilities 3/	2.4	2.6	1.9	4.1	1.8	1.2	4.4	1.8	0.9	3.4	2.9
Of which: External	1.9	2.0	1.6	3.4	1.8	1.9	4.1	1.8	1.8	3.4	2.9
Memorandum items:											
Priority sector spending 4/	3.0	3.7	3.8	3.8	4.2	2.4	4.0	4.2	2.4	4.2	4.2
Net lending (+)/borrowing(-) excluding grant	-5.5	-7.8	-6.1	-7.3	-5.6	-2.5	-6.6	-4.9	-2.1	-6.1	-5.7
Domestic financing 5/	0.9	0.9	1.2	0.7	0.9	-1.2	-0.4	0.0	-1.6	-0.4	-0.1
Government deposits	…	5.1	…	4.6	…	4.7	4.9	…	5.0	4.7	4.7
GDP (in billions of riels)	47,102	47,102	52,154	52,154	56,711	56,711	56,711	62,559	62,559	62,559	69,195

Sources: Data provided by the Cambodian authorities; and IMF staff estimates and projections.

1/ Includes supplementary budget.

2/ Includes provincial tax and nontax revenue.

3/ Includes statistical discrepancy.

4/ Current spending by the ministries of public health; education, youth and sport; agriculture, forestry and fishery; rural development; women's affairs; justice; urbanization and construction; labor and vocational training.

5/ The figure is different from the domestic financing figure in Table 5 (GFSM 1986) because of differences in classification, in particular for capital revenue.

Table 5. Cambodia: General Government Operations, 2010–14 (GFSM 1986)

	2010		2011		2012			2013			2014	
	Budget	Actual	Budget 1/	Est.	Budget	Jan-Aug Est.	Est.	Budget	Jan-Aug. Prel. est.	Proj.	Budget Prel.	Proj.
					(In billions of riels)							
Total revenue	5,838	6,160	6,752	6,822	7,612	5,361	8,596	8,936	5,622	9,070	10,345	10,427
Tax revenue	4,763	4,795	5,487	5,476	6,291	4,344	6,674	7,486	4,834	7,526	8,576	8,616
Direct taxes	968	800	1,044	960	1,278	939	1,276	1,562	1,117	1,550	1,776	1,780
Indirect taxes	3,664	3,745	4,204	4,132	4,774	3,104	4,932	5,515	3,394	5,478	6,256	6,236
Of which: Trade taxes	1,022	1,063	1,136	1,093	1,241	781	1,218	1,425	854	1,438	1,621	1,619
Provincial taxes	131	249	240	385	240	301	465	409	324	498	544	601
Nontax revenue	774	904	885	959	989	767	1,344	1,099	686	1,192	1,430	1,451
Capital revenue 2/	300	461	380	386	332	250	579	352	99	352	339	359
Total expenditure	8,366	9,703	10,097	10,744	10,790	6,614	12,176	12,052	6,958	12,949	13,654	14,202
Current expenditure	5,245	5,164	5,912	5,997	6,603	3,976	6,946	7,450	4,146	7,344	8,658	8,570
Wages	2,092	2,083	2,316	2,233	2,673	1,659	2,598	3,029	1,805	3,086	3,782	3,782
Nonwage	2,882	2,919	3,364	3,521	3,628	2,169	4,039	4,133	2,201	3,970	4,444	4,400
Provincial expenditure	271	161	232	243	302	148	308	287	140	287	432	388
Capital expenditure	3,121	4,531	3,955	4,548	4,080	2,595	5,122	4,481	2,761	5,484	4,996	5,632
Locally financed	1,121	1,111	1,355	1,145	1,220	457	1,100	1,335	528	1,335	1,536	1,536
Externally financed	2,000	3,420	2,600	3,403	2,860	2,138	4,023	3,146	2,233	4,149	3,460	4,096
Net lending	0	8	230	198	107	43	107	122	51	122	0	0
Overall balance	-2,529	-3,543	-3,344	-3,922	-3,178	-1,253	-3,579	-3,116	-1,336	-3,879	-3,309	-3,775
Financing	2,529	3,543	3,344	3,922	3,178	1,253	3,579	3,116	1,336	3,879	3,309	3,775
Foreign (net)	2,150	3,249	2,552	3,457	2,630	2,122	3,923	3,088	2,292	4,091	3,389	4,025
Grants	1,270	2,325	1,692	1,678	1,620	1,054	1,572	1,982	1,173	1,982	1,670	2,002
Loans	1,030	1,064	1,040	1,943	1,260	1,183	2,541	1,386	1,265	2,389	2,050	2,355
Amortization	-150	-140	-180	-164	-250	-115	-190	-280	-146	-280	-331	-331
Domestic (net) 3/	379	295	792	465	548	-869	-344	28	-956	-212	-80	-250
					(In percent of GDP)							
Total revenue	12.4	13.1	12.9	13.1	13.4	9.5	15.2	14.3	9.0	14.5	15.0	15.1
Of which: Central government	12.1	12.5	12.4	12.3	13.0	8.9	14.3	13.6	8.4	13.7	14.1	14.2
Tax revenue	10.1	10.2	10.5	10.5	11.1	7.7	11.8	12.0	7.7	12.0	12.4	12.5
Direct taxes	2.1	1.7	2.0	1.8	2.3	1.7	2.3	2.5	1.8	2.5	2.6	2.6
Indirect taxes	7.8	8.0	8.1	7.9	8.4	5.5	8.7	8.8	5.4	8.8	9.0	9.0
Of which: Trade taxes	2.2	2.3	2.2	2.1	2.2	1.4	2.1	2.3	1.4	2.3	2.3	2.3
Nontax revenue	1.6	1.9	1.7	1.8	1.7	1.4	2.4	1.8	1.1	1.9	2.1	2.1
Capital revenue 2/	0.6	1.0	0.7	0.7	0.6	0.4	1.0	0.6	0.2	0.6	0.5	0.5
Total expenditure and net lending	17.8	20.6	19.4	20.6	19.0	11.7	21.5	19.3	11.1	20.7	19.7	20.5
Current expenditure	11.1	11.0	11.3	11.5	11.6	7.0	12.2	11.9	6.6	11.7	12.5	12.4
Wages	4.4	4.4	4.4	4.3	4.7	2.9	4.6	4.8	2.9	4.9	5.5	5.5
Nonwage	6.1	6.2	6.5	6.8	6.4	3.8	7.1	6.6	3.5	6.3	6.4	6.4
Provincial expenditure	0.6	0.3	0.4	0.5	0.5	0.3	0.5	0.5	0.2	0.5	0.6	0.6
Capital expenditure	6.6	9.6	7.6	8.7	7.2	4.6	9.0	7.2	4.4	8.8	7.2	8.1
Locally financed	2.4	2.4	2.6	2.2	2.2	0.8	1.9	2.1	0.8	2.1	2.2	2.2
Externally financed	4.2	7.3	5.0	6.5	5.0	3.8	7.1	5.0	3.6	6.6	5.0	5.9
Net lending	0.0	0.0	0.4	0.4	0.2	0.1	0.2	0.2	0.1	0.2	0.0	0.0
Overall balance	-5.4	-7.5	-6.4	-7.5	-5.6	-2.2	-6.3	-5.0	-2.1	-6.2	-4.8	-5.5
Financing	5.4	7.5	6.4	7.5	5.6	2.2	6.3	5.0	2.1	6.2	4.8	5.5
Foreign (net)	4.6	6.9	4.9	6.6	4.6	3.7	6.9	4.9	3.7	6.5	4.9	5.8
Grants	2.7	4.9	3.2	3.2	2.9	1.9	2.8	3.2	1.9	3.2	2.4	2.9
Loans	2.2	2.3	2.0	3.7	2.2	2.1	4.5	2.2	2.0	3.8	3.0	3.4
Amortization	-0.3	-0.3	-0.3	-0.3	-0.4	-0.2	-0.3	-0.4	-0.2	-0.4	-0.5	-0.5
Domestic (net) 3/	0.8	0.6	1.5	0.9	1.0	-1.5	-0.6	0.0	-1.5	-0.3	-0.1	-0.4
Memorandum item:												
GDP (in billions of riels)	47,102	47,102	52,154	52,154	56,711	56,711	56,711	62,559	62,559	62,559	69,195	69,195
Government deposits (percent of GDP)	…	5.1	…	4.6	…	4.7	4.9	…	5.0	4.7	…	4.7

Sources: Data provided by the Cambodian authorities; and IMF staff estimates and projections.

1/ Includes supplementary budget.

2/ Includes privatization proceeds.

3/ Includes statistical discrepancy. The figure is different from the domestic financing figure in Table 4 (GFSM 2001) because of differences in classification, in particular for capital revenue.

Table 6. Cambodia: Monetary Survey, 2010–14

	2010	2011	2012				2013				2014
			Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec Proj.	Dec Proj.
						(In billions of riels)					
Net foreign assets	17,054	18,426	19,390	20,717	20,483	21,265	22,549	21,773	18,721	21,854	24,324
National Bank of Cambodia	14,982	16,010	17,127	17,675	18,226	18,583	20,026	19,019	16,868	19,721	22,311
Foreign assets	15,410	16,435	17,551	18,098	18,653	19,003	20,437	19,438	17,295	20,142	22,731
Foreign liabilities	428	425	424	423	427	421	410	418	427	421	421
Deposit money banks	2,072	2,416	2,263	3,042	2,257	2,682	2,523	2,754	1,852	2,133	2,013
Foreign assets	3,864	4,714	5,819	7,319	7,103	8,721	8,389	8,317	8,444	8,187	8,539
Foreign liabilities	1,792	2,298	3,556	4,277	4,846	6,038	5,866	5,563	6,592	6,054	6,526
Net domestic assets	2,423	5,215	5,473	5,935	6,381	7,327	7,932	9,886	10,635	11,787	17,279
Domestic credit	10,850	14,898	15,509	17,044	18,178	19,312	20,218	22,148	23,646	24,924	31,369
Government (net)	-2,127	-2,123	-2,542	-2,400	-2,441	-2,486	-2,992	-3,013	-2,808	-2,977	-3,227
Private sector	12,975	17,021	18,051	19,440	20,615	21,793	23,199	25,146	26,445	27,895	34,590
Other items (net)	-8,428	-9,684	-10,035	-11,110	-11,797	-11,985	-12,286	-12,262	-13,011	-13,137	-14,090
Broad money	19,477	23,640	24,864	26,652	26,864	28,592	30,481	31,659	29,356	33,641	41,603
Narrow money	3,221	3,956	3,985	3,872	3,818	4,046	4,501	4,586	4,721	4,713	5,456
Currency in circulation	3,099	3,772	3,811	3,632	3,591	3,756	4,223	4,237	4,319	4,319	4,967
Demand deposits	122	185	174	240	227	290	278	349	402	394	490
Quasi-money	16,256	19,684	20,879	22,780	23,046	24,546	25,980	27,073	24,635	28,928	36,147
Time deposits	408	557	896	625	683	780	671	745	911	897	1,031
Foreign currency deposits	15,848	19,127	19,983	22,155	22,363	23,766	25,309	26,328	23,723	28,031	35,116
					(12-month percentage change)						
Net foreign assets	16.2	8.0	11.4	11.6	12.4	15.4	16.3	5.1	-8.6	2.8	11.3
Private sector credit	23.4	31.2	32.9	31.1	30.0	28.0	28.5	29.4	28.3	28.0	24.0
Broad money	20.0	21.4	22.6	21.1	18.7	20.9	22.6	18.8	9.3	17.7	23.7
Of which: Currency in circulation	3.2	21.7	12.7	8.8	1.7	-0.4	10.8	16.7	20.3	15.0	15.0
Foreign currency deposits	24.3	20.7	21.9	22.8	21.1	24.3	26.7	18.8	6.1	17.9	25.3
					(Contribution to year-on-year growth of broad money, in percentage points)						
Net foreign assets	14.7	7.0	4.1	9.7	8.7	12.0	12.7	4.0	-9.5	2.1	7.3
Net domestic assets	5.3	14.3	1.3	3.3	5.2	8.9	9.9	14.8	12.3	15.6	16.3
Domestic credit 1/	15.9	20.8	3.0	9.8	14.5	18.7	18.9	19.1	16.1	19.6	19.2
Government (net)	0.8	0.0	-2.1	-1.3	-1.4	-1.5	-1.8	-2.3	-1.2	-1.7	-0.7
Private sector	15.2	20.8	5.1	11.0	15.9	20.2	20.7	21.4	17.3	21.3	19.9
Other items (net)	-10.6	-6.4	-1.7	-6.5	-9.3	-9.7	-9.1	-4.3	-3.8	-4.0	-2.8
Memorandum items:											
Foreign currency deposits (in millions of U.S. dollars)	3,910	4,736	5,002	5,546	5,598	5,949	6,316	6,570	5,920	6,995	8,536
(In percent of broad money)	81.4	80.9	80.4	83.1	83.2	83.1	83.0	83.2	80.8	83.3	84.4
Riel component of broad money	3,629	4,513	4,881	4,497	4,501	4,826	5,172	5,331	5,632	5,610	6,488
(In percent of broad money)	18.6	19.1	19.6	16.9	16.8	16.9	17.0	16.8	19.2	16.7	15.6
Credit to the private sector (in millions of U.S. dollars)	3,201	4,214	4,518	4,866	5,160	5,455	5,789	6,275	6,600	6,961	8,409
(In percent of GDP)	24.8	32.6	31.8	34.3	36.4	38.4	37.1	40.2	42.3	44.6	59.2
Foreign Currency Loans	12,530	16,583	17,869	19,252	20,423	21,609	22,959	24,902	26,201	27,647	34,282
Loan-to-deposit ratio (in percent) 2/	79.1	86.7	89.4	86.9	91.3	90.9	90.7	94.6	110.4	98.6	97.6
Velocity 3/	2.6	2.4	2.3	2.2	2.2	2.2	2.1	2.0	2.1	2.1	2.1
Money multiplier (broad money/reserve money)	1.9	2.1	2.1	2.1	2.1	2.2	2.1	2.3	2.5	2.4	2.5
Reserve money (12-month percent change)	17.2	7.7	15.5	15.6	17.7	19.0	22.8	11.5	-6.3	7.6	16.0

Sources: Cambodian authorities; and IMF staff estimates and projections.

1/ Revisions of monetary survey to exclude banks' credits to nonresident.

2/ Foreign currency loans and deposits only.

3/ The ratio of nominal GDP to the year-to-date average stock of broad money.

Table 7. Cambodia: Core Financial Soundness Indicators (FSIs), 2008–13

(In percent)

	2008	2009	2010	2011				2012				2013	
				Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun
Capital-based FSIs													
Regulatory capital to risk-weighted assets	27.6	32.3	31.4	31.2	29.0	27.5	26.2	29.1	28.8	27.2	25.0	25.6	25.6
Regulatory tier 1 capital to risk-weighted assets	27.7	33.0	32.1	29.5	27.7	26.3	26.3	29.3	28.9	27.3	25.3	26.1	25.7
Nonperforming loans net of provisions to capital	5.9	5.3	3.8	3.9	4.6	5.4	3.3	3.8	3.5	4.3	3.5	3.4	3.6
Return on equity 1/	12.4	4.9	6.5	9.0	9.6	10.5	9.7	11.2	11.0	10.5	10.2	12.9	11.6
Net open position in foreign exchange to capital	0.9	1.4	2.3	3.1	3.0	3.9	3.9	2.9	3.4	1.8	2.0	1.6	1.2
Asset-based FSIs													
Nonperforming loans to total gross loans	2.9	3.9	2.9	2.9	3.0	3.0	2.1	2.4	2.2	2.5	2.0	1.9	2.1
Return on assets 1/	2.7	1.0	1.3	1.9	1.8	2.0	1.8	2.3	2.1	1.9	1.7	2.3	2.1
Liquid assets to total assets	14.2	19.4	18.0	17.9	17.9	19.0	16.2	17.2	17.5	16.1	15.4	16.2	16.0
Liquid assets to short-term liabilities	30.6	26.8	25.2	25.2	25.3	27.0	23.0	24.3	24.4	22.5	21.2	22.4	22.2
Sectoral distribution of loans to total gross loans													
Residents	94.4	95.0	91.8	91.0	90.8	91.1	92.3	88.3	85.7	87.1	84.0	86.6	87.2
Deposit-takers	3.8	6.5	4.4	3.9	4.7	4.9	7.7	8.1	7.9	8.4	7.7	8.1	7.9
Central bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nonfinancial corporations	70.6	71.1	72.3	72.2	71.3	71.1	69.5	65.8	63.8	64.1	62.0	63.8	63.8
Other domestic sectors	20.1	17.5	15.1	14.9	14.8	15.1	15.1	14.4	14.0	14.6	14.3	14.7	15.6
Nonresidents	5.6	5.0	8.2	9.0	9.2	8.9	7.7	11.7	14.3	12.9	16.0	13.5	12.8
Income- and expense-based FSIs													
Interest margin to gross income	48.3	60.8	62.2	67.7	65.3	63.6	64.3	63.1	65.6	66.7	66.6	69.9	68.2
Noninterest expenses to gross income	64.2	64.2	63.2	56.8	57.9	56.1	57.5	53.9	54.7	53.6	53.9	49.5	51.1

Source: National Bank of Cambodia.

1/ Annualized.

Table 8. Cambodia: Key 2010 FSAP Recommendations of High Priority

Recommendation	Timeframe 1/	Status
General Stability		
· Improve the quality of data to enable an appropriate assessment of risks, and to enhance the reliability of stress tests, including through strengthening supervision; and collecting additional credit-related information.	Short term	In process
· Ensure that banks retain an appropriate level of liquid assets to be able to meet short-term obligations by enforcing existing regulations.	Short term	In process
· Upgrade law to formalize delineation of responsibilities among supervisors, and establish procedures, through MOUs, for practical information exchange, coordination and accountability among domestic supervisors (NBC, MEF, SECC), and with foreign supervisors.	Short term	Initiated but not concluded
· Upgrade both the number and capacity of staff in the areas of banking, insurance, securities and payment system supervision; develop training programs for financial institutions on accounting, corporate governance, risk management, and for the external audit profession.	Medium term	In process
· Develop and implement a strategic plan to address the conflicts and overlaps in the financial sector legal and regulatory framework.	Medium term	In process
Supervision and Regulation		
Banking		
· Develop supervisory strategy to deal with banks that cannot meet the new capital requirement.	Short term	Done
· Conduct comprehensive upgrades to the legal framework.	Short term	In process
· Reprioritize the work performed by the staff to facilitate forward-looking, risk-based supervision.	Short term	In process
· Impose a moratorium on new bank licenses as long as supervisory capacity and resources remain inadequate.	Short term	Under NBC review
Nonbank Financial Sector		
· Revise capital regulations in concert with liability, investment and accounting rules to better reflect the risks in a growing insurance market.	Short term	Done
· Enhance powers for intervention, corrective measures and enforcement.	Short term	In process
· Conduct a readiness study prior to the launch of the stock exchange.	Short term	Done
Access to Finance		
· Enhance supervisory practices to keep pace with the development of microfinance deposit-taking institutions, and impose a moratorium as long as supervisory capacity and resources remain inadequate.	Medium term	In process
Crisis Management Framework		
· Revise PCA framework by developing additional triggers for asset quality, liquidity, and earlier intervention based on the solvency ratio.	Medium term	In preparation
· Introduce regulation allowing banks to use their fixed deposits at the NBC and any issue of government (including government bodies) or government-guaranteed securities as eligible collateral for interbank and NBC repos.	Short term	Done
· Develop a crisis management framework.	Medium term	In preparation
Transparency of Monetary and Financial Policies		
· Introduce due process for the dismissal of NBC Board members and the Governor by specifying the legal grounds for doing so, and defining an appeal process.	Medium term	In preparation
· Amend the law to reduce the government's representation on the Board of the NBC; and to reflect the practice of appointing two Deputy Governors.	Short term	In preparation
Corporate governance of banks		
· Draft and/or implement banking regulations on internal audit and controls, risk management, and compliance functions at banks.	Short-term	Done
AML/CFT		
· Introduce new measures for conducting overall AML/CFT risk assessments and risk profiling of financial institutions.	Short-term	In preparation

1/ Short term: up to one year; medium term: one to three years.

Table 9. Cambodia: Millennium Development Goals (MDG) Indicators

	1990	1995	2000	2005	2009	2010	2011	2012	2015 MDG Target
Goal 1: Eradicate extreme poverty and hunger									
Percentage share of income or consumption held by poorest 20 percent	...	8.5	...	...	8	...	...	...	11
Population below minimum level of dietary energy consumption (percent)	...	...	...	33	...	...	...	...	21
Poverty gap ratio at $1 a day (incidence x depth of poverty)	...	...	...		...				
Poverty headcount ratio at $1.25 per day (PPP, percent of population)	...	49	...	40	19	...	...	...	20
Poverty headcount ratio at national poverty line (percent of population)	...	...	...	53	24	22	21	...	
Prevalence of underweight in children (under five years of age)	...	43	40	28	...	29	...	...	26
Goal 2: Achieve universal primary education									
Net primary enrollment (percent of relevant age group)	67	...	87	90	...	96	98	...	100
Primary completion rate, total (percent of relevant age group)	...	42	47	85	84	87	90	...	100
Proportion of pupils starting grade 1 who reach grade 5	...	...	63	55	...	85	...	...	100
Youth literacy rate (percent of ages 15–24)	73	76	79	83	87	...	...	...	100
Goal 3: Promote gender equality and empower women									
Proportion of seats held by women in national parliament (percent)	...	...	8	10	21	21	20	20	30
Ratio of girls to boys in primary and secondary education (percent)	73	..	82	..	...	...	...	...	100
Ratio of young literate females to males (percent ages 15–24)	81	84	89	90	97	...	...	...	100
Share of women employed in the nonagricultural sector (percent)	..	..	41	..	...	...	...	...	...
Goal 4: Reduce child mortality									
Immunization, measles (percent of children ages 12–23 months)	34	62	65	79	92	93	93	...	90
Infant mortality rate (per 1,000 live births)	87	87	80	73	42	39	36	...	50
Under five mortality rate (per 1,000)	119	119	107	96	50	46	43	...	38
Goal 5: Improve maternal health									
Births attended by skilled health staff (percent of total)	..	..	32	44	...	71	...	...	80
Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	...	450	540	...	206	...	...	250
Goal 6: Combat HIV/AIDS, malaria, and other diseases									
Incidence of tuberculosis (per 100,000 people)	585	557	530	505	451	437	424	...	...
Prevalence of HIV, total (percent of population 15–49)	...	...	...	2	1	1	1	...	...
Goal 7: Ensure environmental sustainability									
Access to an improved water source (percent of population)	0	19	38	...	63	65	67	...	...
Access to improved sanitation (percent of population)	0	8	16	...	30	32	33	...	...
Nationally protected areas (percent of total land area)	...	...	...	24	26	26	...	...	...
Goal 8: Develop a global partnership for development									
Aid per capita (current U.S. dollars)	4	50	31	39	51	51	54	...	...
Fixed line and mobile phone subscribers (per 100 people)	0	0	1	8	45	60	100	136	...
Internet users (per 1,000 people)	0	...	0	3	1	1	3	5	...
Personal computers (per 1,000 people)	...	0	1	3	...	...	...	...	...
Total debt service (percent of exports of goods and services)	..	1	1	1	1	1	1	...	...
Goal 9: De-mining, UXO and assistance									
Annual numbers of civilian casualties recorded	...	1,691	...	797	244	286	240	240	0
Percentage of suspected contaminated areas cleared	...	10	...	50	53	59	56	56	100
Other									
Fertility rate, total (births per woman)	6	5	4	3	3	3	3	...	...
GNI per capita, Atlas method (current U.S. dollars)	..	280	280	450	690	740	800	880	...
GNI, Atlas method (current, in billions of U.S. dollars)	...	3.2	3.6	6.2	10	11	12	13	...
Gross capital formation (percent of GDP)	8	15	18	18	21	17	17	...	...
Life expectancy at birth, total (years)	50	...	...	58	62	63	63	...	...
Literacy rate, adult total (percent of people ages 15 and above)	62	64	68	...	74	...	...	...	...
Population, total (millions)	10	11	13	14	14	14	15	15	...
Trade (percent of GDP)	19	78	112	137	105	114	114	...	...

Sources: World Bank database, *World Development Indicators,* and *Poverty Assessment* (2009); UN Human Development Indicators. Report (2003); Cambodia MDG 2011 update; UN MDG Indicators 2011 (http://mdgs.un.org); and IMF staff estimates.

INTERNATIONAL MONETARY FUND

CAMBODIA

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STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS[1]

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This Debt Sustainability Analysis (DSA) shows that Cambodia's debt distress rating remains low with all debt burden indicators projected to remain below the respective thresholds. In line with last year's DSA, the results also indicate that debt sustainability continues to be vulnerable to growth, exports, and fiscal shocks, calling for continued structural reforms to diversify growth, and to mobilize fiscal revenues.

1. This DSA incorporates some updates compared to the 2012 DSA. The discount rate is revised upward to 5 percent from 3 percent, reflecting the recent IMF Board decision to link the discount rate to the 10-year average level of the U.S. dollar Commercial Interest Reference Rate. The macroeconomic assumptions underlying the baseline scenario remain broadly similar to last year's DSA except that Cambodia is now assumed to issue domestic debt (e.g., government bonds) over the long term. The debt-to-GDP ratio at end-2012 was slightly higher than the previous estimate due to larger disbursement of bilateral debts. Cambodia's Country Policy and Institutional Assessment (CPIA) rating remained unchanged at "medium performer."[2]

[1] This DSA has been prepared jointly by IMF and World Bank staffs and in consultation with the Asian Development Bank (AsDB), using the debt sustainability framework for low-income countries approved by the Boards of both institutions.

[2] Cambodia's policies and institutions, as measured by the World Bank's Country Policy and Institutional Assessment, continue to be classified as "medium performer." The relevant indicative thresholds, applicable to public and publicly guaranteed external debt, for this category are 40 percent for the net present value (NPV) of debt-to-GDP ratio, 150 percent for the NPV of debt-to-exports ratio, 250 percent for the NPV of debt-to-revenue ratio, 20 percent for the debt service-to-exports ratio, and 20 percent for the debt service-to-revenue ratio.

CAMBODIA'S PUBLIC DEBT

2. **At end-2012, the stock of Cambodia's external public debt, including arrears, stood at around US$4.5 billion or 32 percent of GDP** (19 percent in NPV terms). The debt-to-GDP ratio has increased from 27 percent in 2008, partly reflecting greater external fiscal financing during the economic slowdown in 2009 and larger disbursement of bilateral loans during 2011–12.

3. **With greater disbursement of bilateral debt over the past five years, the share of multilateral creditor debt has continued to decline.** The share of bilateral debt, including arrears, in total external public debt has increased from 50 percent in 2009 to 63 percent in 2012. China remains the largest bilateral creditor, contributing to more than 50 percent of the total bilateral debt stock and about 80 percent of bilateral debt disbursement during the past three years. Cambodia remains in arrears to the Russian Federation and the U.S. (nearly 20 percent of total debt or 6 percent of GDP), and the status of negotiations of these arrears has remained unchanged since the last DSA. Cambodia is not servicing its debt with these two creditors. The Cambodian authorities have been in contact with the Russian and U.S. authorities at least on an annual basis, but further efforts are needed to conclude agreements under the Paris Club framework. Since prospects for resolution remain unclear, this DSA continues to assume no debt restructuring, with arrears continuing to build up over the projection period.

4. **The negligible level of domestic debt remains unchanged.** Cambodia has virtually no domestic public debt at present. There is a small amount of bonds (US$4 million) issued in the early 2000s and some old claims on the government (half percent of GDP, with no interest) that were carried over from the 1990s and remain to be recorded in the monetary survey.

5. **The authorities have made progress in monitoring their potential contingent liabilities and strengthening debt management.** Consistent with the Debt Management Strategy adopted in 2012, progress has been made in monitoring potential contingent liabilities, including those related to power generation and distribution projects under public private partnerships (PPP) that receive government guarantees. With the support of World Bank technical assistance, the authorities have collected the contractual agreements of most projects. The latest estimates show that the total investment of all projects amounted to around $3.2 billion (about 25 percent of GDP in 2012), lower than the previous estimate of about 50 percent of GDP in 2011. The work on estimating the amount of the payment obligations and the size of contingent liability has commenced recently. The authorities have also established two departments within the Ministry of Economy and Finance: (1) an investment department to review and select any new PPP projects as well as monitor their implementation, and (2) a debt management department to manage the risks, including those related to contingent liabilities associated with these projects. These two departments would serve as a central monitoring unit to evaluate and approve new PPP projects, enhance fiscal transparency, and strengthen information sharing between agencies. The authorities have also been drafting new laws and regulations on lending and nonlending as well as government guarantees with a view of adopting a ceiling on government guarantees and listing all contingent liabilities and government guarantees in annual budget laws.

MACROECONOMIC FRAMEWORK

6. The macroeconomic framework underlying the baseline scenario remains broadly in line with the previous DSA.

- **Growth and inflation:** Growth has been robust driven by robust garment exports, tourism, and construction despite policy uncertainty in an election year and recent floods. GDP growth is expected at 7 percent in 2013 and is projected to gradually increase to 7½ percent by 2018 assuming continued improvement in infrastructure, competitiveness and investment climate[3]. Over the long term, growth is projected to moderate to 7 percent. Inflation would stay at 3–4 percent during 2013–14 due to stable global food and commodity prices. In the medium term, it is expected to average 3 percent, in line with the authorities' informal target and partner countries' medium-term inflation.

Cambodia: Macroeconomic Framework, 2011–33

	2011	2012	2013	2014	2015	2016	2017	2018	2014-18	2019-23	2024-33
		Est.					Proj.				
Output and prices (percent change)											
GDP growth	7.1	7.3	7.0	7.2	7.3	7.3	7.5	7.5	7.4	7.3	7.0
Consumer prices (end-year)	4.9	2.5	4.1	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Public finance (GFSM 2001 presentation, in percent of GDP)											
Revenue	15.6	16.9	17.1	17.4	18.0	18.2	18.6	18.9	18.2	18.9	19.7
Domestic revenue	12.3	14.1	13.9	14.5	15.0	15.5	16.0	16.5	15.5	17.5	19.1
Grants	3.2	2.8	3.2	2.9	2.9	2.7	2.6	2.4	2.7	1.4	0.7
Total expenditure	19.6	20.7	20.1	20.2	19.7	19.3	19.4	19.3	19.6	20.2	21.8
Net lending (+)/borrowing(-)	-4.1	-3.8	-3.0	-2.8	-1.7	-1.1	-0.8	-0.4	-1.4	-1.2	-2.1
Net lending (+)/borrowing(-) excluding grants	-7.3	-6.6	-6.1	-5.7	-4.7	-3.9	-3.4	-2.8	-4.1	-2.6	-2.8
Government deposits	4.6	4.9	4.7	4.7	4.8	4.9	5.2	5.5	5.0	5.5	6.1
Balance of payments (in percent of GDP, unless otherwise indicated)											
Current account balance (including transfers)	-8.1	-8.7	-8.6	-8.4	-7.4	-6.6	-6.1	-5.5	-6.8	-6.0	-5.7
Foreign direct investment	11.5	11.3	10.4	8.6	8.1	7.9	7.9	7.4	8.0	7.1	7.2
External loans	4.2	4.9	3.9	3.3	2.5	2.2	2.0	1.8	2.4	2.0	1.7
Gross official reserves (in months of next year's imports)	3.6	3.6	3.6	3.7	3.7	3.8	3.9	3.9	3.8	3.9	3.4

Sources: Cambodian authorities; and IMF staff estimates and projections.

- **External stability:** Despite robust exports and tourism, the current account deficit including official transfers is expected to stay broadly flat at around 8½ percent of GDP in 2013 due to strong but moderating imports, and it remains fully financed by FDI and official loans. Over the medium term, the deficit is projected to decline to 5½ percent of GDP due to robust export growth, improved competitiveness and diversification, and lower imports after the completion of large power generation projects. Gross official reserves are projected to remain at around 3½ months of prospective imports. External debt disbursement is projected to average about US$500 million annually during 2013–18 (about 2½ percent of GDP on average), and with this, the debt to GDP ratio is projected to gradually decline to 29 percent by 2018.

- **Fiscal sustainability:** Revenue performance has continued to improve and fiscal consolidation remains broadly on track, although government deposits, the only fiscal buffers in the absence of a domestic government debt market, remain limited. Domestic revenue is projected to increase by ½ percent of GDP annually over the medium term in line with the authorities' goal under the Public Financial Management Reform Program. The authorities' strong commitment to implement the Revenue Mobilization Strategy suggests that this goal is achievable. Medium-term fiscal consolidation is anchored by a rebuilding of government deposits and maintenance of long-term

[3] See Rungcharoenkitkul (2011), IMF Working Paper 12/96.

fiscal debt sustainability, while striking a careful balance to provide resources for Cambodia's vast development needs against an expected gradual decline of concessional external funds. In view of this, domestically-funded capital spending is projected to increase from 1¾ percent GDP in 2013 to 3 percent in 2018 to cushion the decline in externally-funded capital spending from 6½ to 4 percent of GDP, thereby ensuring that the overall capital spending is maintained at least at 7 percent of GDP. With continued efforts to increase efficiency of public investment program and by keeping the current spending broadly constant in terms of GDP, the fiscal deficit, excluding grants, is projected to decline gradually from about 6 percent of GDP in 2013 to 2¾ percent in 2018.

- **Domestic debt:** Different from the last year's DSA, Cambodia's domestic debt is no longer assumed to remain zero over the long term. As Cambodia continues to develop, it would start issuing domestic government bonds to develop its bond market and provide additional fiscal financing if needed. By issuing net-debt (issuance minus repayment) starting from ¼ ppt of GDP annually in 2021 and gradually increasing to about ¾ ppt of GDP in 2033, the total stock of debt would reach 3½ percent of GDP by 2033. This remains low compared to the average domestic debt in low income countries (LICs) of about 15 percent of GDP. However, this conservative estimate is in line with the authorities' intention of not issuing domestic debt over the medium term in order to focus more on mobilizing domestic revenue and raising government deposits (i.e., savings, not borrowing).

EXTERNAL AND PUBLIC DEBT SUSTAINABILITY

7. Under the baseline scenario, the external DSA shows that Cambodia's risk of debt distress is low (Figure 1, Tables 1a and 1b). The PV of debt-to-GDP, debt-to-exports, and debt-to-revenue ratios are below their respective thresholds and are projected to decline over the 20-year projection period. Moreover, the debt service-to-exports and debt service-to-revenue ratios are also expected to decline over time and remain well below the thresholds throughout the projection period, partly due to the concessionality of debts. Even though the standard stress tests do not indicate any major vulnerability, the external debt, especially debt-to-revenue ratio, appears to be vulnerable to exchange rate and export shocks.

8. The public sector DSA closely tracks the external debt sustainability partly because public domestic debt is small. (Figure 2 and Tables 2a and 2b). In particular, the PV of public debt-to-GDP and the public debt service-to-revenue ratios would decline gradually over time, and the debt service-to-revenue ratio would remain low in most scenarios for the entire projection period. Different from last year's DSA with a virtually zero domestic debt, the current DSA assumes that domestic debt will start to increase after 2020 and reach about 3½ percent of GDP over the long run.

9. Public debt sustainability continues to be vulnerable to a lack of fiscal consolidation and a permanent growth shock. If the primary balance remains unchanged at the 2013 level, the PV of public debt-to-GDP would continue to increase, reaching about 24 percent in the long run. Under a permanent growth shock, if real GDP growth is one standard deviation lower than the baseline, the ratios of public debt-to-GDP and revenue would also continue to increase.

10. Despite the low risk of debt distress, the stock of debt could increase substantially if the potential contingent liabilities materialize. The total investment in power generation and distribution projects under PPPs is large, and if for any reason problems arose potentially leading to a total loss of investment costs, substantial liabilities would be added to the debt stock. For example, if only one in ten projects fails, an average of 2½ percent of GDP (i.e., one tenth of the latest estimate of total investment cost) could be added to the debt stock. Given network externalities, one failure could trigger additional failures, further eroding debt sustainability. A more detailed analysis to estimate the size of contingent liabilities with the support of World Bank technical assistance is still ongoing. One option that is being considered is the value-at-risk approach, which estimates the maximum probable loss due to the nonpayment of power purchase or power transmission charges plus the termination sale price of a firm in case of default. Other potential contingent liabilities include the fiscal cost to support the financial sector during a banking crisis. For example, the median direct fiscal cost of banking crisis in emerging market economies is estimated at 11.5 percent of GDP.[4]

11. The authorities broadly agreed with the overall results of the DSA. The authorities indicated that the macroeconomic assumptions are broadly consistent with theirs, with medium-and long-term growth projected at around 7 percent on average. On external debt, the authorities indicated that the actual debt disbursement over the medium term could be more than US$500 million a year considering prospective new loans. However, they reiterated their commitment to maintain debt-to-GDP ratio below 30 percent over the medium term, which is also assumed by this DSA, to ensure debt sustainability over the long run. On domestic debt, the authorities confirmed that there is no plan for domestic bond issuance until 2018 but agreed that some domestic debt could be considered over the long term in order to develop the domestic bond market.

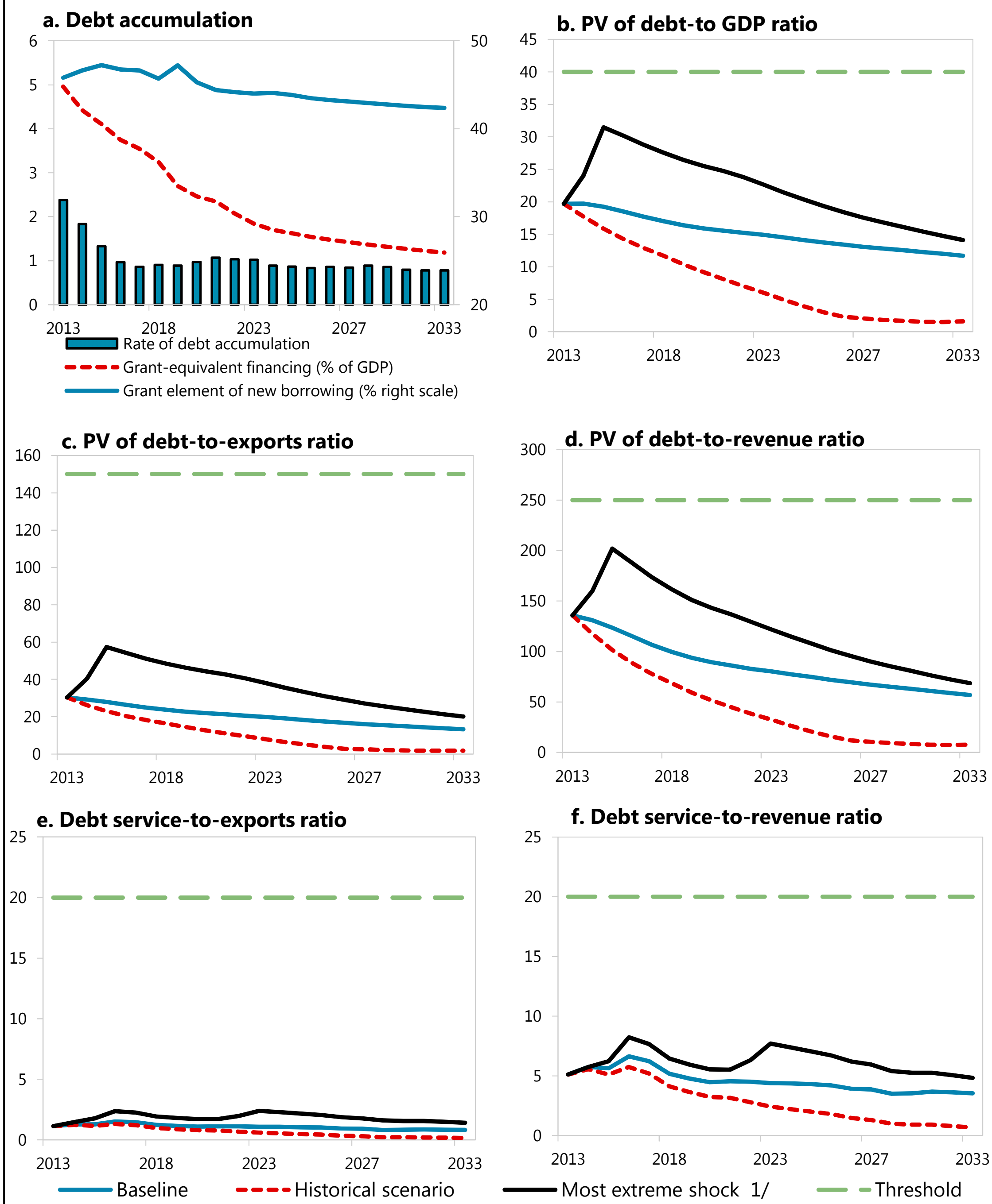
CONCLUSION

12. Cambodia remains at low risk of debt distress under the baseline scenario. The baseline projections and the standard stress tests show limited risk to external debt given that none of the indicators breach their thresholds. The most extreme stress tests indicate that Cambodia's debt sustainability remains vulnerable to shocks to the exchange rate, growth, exports, and fiscal position. This suggests the importance of preserving macroeconomic stability, diversifying the economy and exports, and implementing revenue mobilization strategy.

13. Staff welcomes progress made in strengthening debt management. Prudent debt management, including monitoring and managing the potential contingent liabilities, is critical to safeguard the fiscal space. Staff welcomes the authorities' progress in collecting more information of infrastructure projects developed under PPPs and related government guarantees, and looks forward to the results of the exercise that was recently initiated to estimate the size of contingent liabilities. Moving forward, staff encourages the authorities to enhance fiscal transparency by adopting a ceiling on PPP guarantees, and listing all contingent liabilities and government guarantees in annual budget laws.

[4] See for example Laeven and Valencia (2010), IMF Working Paper 10/146.

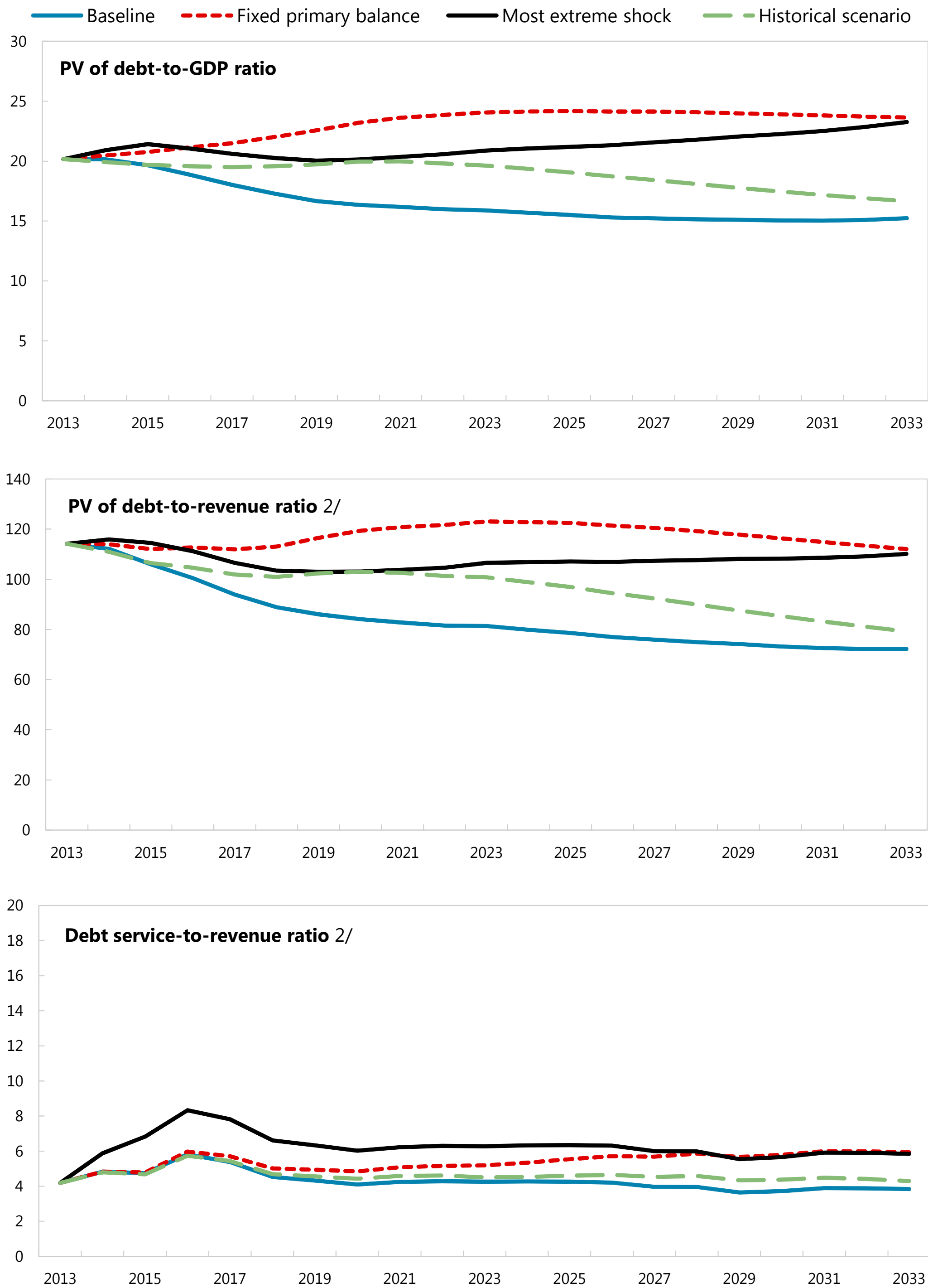
Figure 1. Cambodia: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2013–33 1/



Sources: Cambodian authorities; and IMF staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2023. In figure b. it corresponds to a one-time depreciation shock; in c. to an exports shock; in d. to a one-time depreciation shock; in e. to an exports shock and in figure f. to an exports shock.

Figure 2. Cambodia: Indicators of Public Debt Under Alternative Scenarios, 2013–33 1/



Sources: Cambodian authorities; and IMF staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in all figures, this corresponds to a permanent growth shock in 2023.
2/ Revenues are defined inclusive of grants.

Table 1a. Cambodia: External Debt Sustainability Framework, Baseline Scenario, 2010–33 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical	Standard	Projections									
	2010	2011	2012	Average 2/	Deviation 2/	2013	2014	2015	2016	2017	2018	2013–18 Average	2023	2033	2019–33 Average
External debt (nominal) 1/	**28.7**	**29.7**	**31.6**			**32.8**	**33.1**	**32.3**	**31.4**	**30.1**	**28.8**		**25.0**	**19.0**	
Of which: Public and publicly guaranteed (PPG)	28.7	29.7	31.6			32.8	33.1	32.3	31.4	30.1	28.8		25.0	19.0	
Change in external debt	0.3	1.0	1.9			1.2	0.2	-0.7	-0.9	-1.3	-1.3		-0.6	-0.5	
Identified net debt-creating flows	-5.0	-7.1	-5.2			-3.8	-2.3	-2.9	-3.4	-4.0	-3.9		-2.6	-3.3	
Noninterest current account deficit	**3.6**	**7.8**	**8.4**	**4.0**	**2.6**	**8.3**	**8.0**	**7.0**	**6.1**	**5.7**	**5.3**	**6.7**	**5.9**	**4.9**	5.6
Deficit in balance of goods and services	7.9	8.9	8.9			9.0	8.6	7.4	6.7	6.4	6.3		6.0	4.4	
Exports	49.3	57.7	61.8			64.8	67.5	69.0	70.1	71.0	71.6		75.0	88.5	
Imports	57.2	66.6	70.6			73.8	76.1	76.4	76.8	77.4	77.8		81.0	92.8	
Net current transfers (negative = inflow)	-8.6	-6.3	-5.4	-8.6	1.7	-5.1	-4.8	-4.6	-4.4	-4.1	-4.0	-4.5	-2.7	-2.3	-2.7
Of which: Official	-6.8	-3.8	-3.4			-3.1	-2.8	-2.6	-2.4	-2.1	-2.0		-0.7	-0.3	
Other current account flows (negative = net inflow)	4.4	5.1	4.9			4.3	4.2	4.2	3.7	3.4	3.0		2.6	2.8	
Net FDI (negative = inflow)	**-6.8**	**-11.5**	**-11.3**	**-6.9**	**3.4**	**-10.4**	**-8.6**	**-8.1**	**-7.9**	**-7.9**	**-7.4**	**-8.4**	**-7.1**	**-7.2**	-7.1
Endogenous debt dynamics 3/	**-1.8**	**-3.4**	**-2.3**			**-1.6**	**-1.7**	**-1.8**	**-1.6**	**-1.8**	**-1.8**		**-1.4**	**-1.0**	
Contribution from nominal interest rate	0.3	0.3	0.3			0.4	0.5	0.4	0.6	0.4	0.2		0.3	0.2	
Contribution from real GDP growth	-1.6	-1.8	-2.0			-2.0	-2.2	-2.2	-2.2	-2.2	-2.1		-1.7	-1.2	
Contribution from price and exchange rate changes	-0.5	-1.9	-0.6			...	...	...	...	...	...		...	...	
Residual (3-4) 4/	**5.3**	**8.1**	**7.0**			**5.0**	**2.6**	**2.2**	**2.5**	**2.7**	**2.6**		**2.0**	**2.9**	
Of which: Exceptional financing	-0.2	-0.1	-0.1			-0.1	-0.1	-0.1	-0.1	-0.1	0.0		0.0	0.0	
PV of external debt 5/	...	...	19.0			19.7	19.7	19.3	18.5	17.7	17.0		14.9	11.7	
In percent of exports	...	...	30.8			30.4	29.2	27.9	26.4	24.9	23.8		19.9	13.2	
PV of PPG external debt	**...**	**...**	**19.0**			**19.7**	**19.7**	**19.3**	**18.5**	**17.7**	**17.0**		**14.9**	**11.7**	
In percent of exports	**...**	**...**	**30.8**			**30.4**	**29.2**	**27.9**	**26.4**	**24.9**	**23.8**		**19.9**	**13.2**	
In percent of government revenues	**...**	**...**	**125.4**			**135.9**	**130.9**	**123.5**	**115.3**	**106.7**	**99.7**		**80.3**	**57.0**	
Debt service-to-exports ratio (in percent)	**1.4**	**1.2**	**1.0**			**1.1**	**1.3**	**1.3**	**1.5**	**1.5**	**1.2**		**1.1**	**0.8**	
PPG debt service-to-exports ratio (in percent)	**1.4**	**1.2**	**1.0**			**1.1**	**1.3**	**1.3**	**1.5**	**1.5**	**1.2**		**1.1**	**0.8**	
PPG debt service-to-revenue ratio (in percent)	**5.2**	**5.2**	**4.2**			**5.1**	**5.7**	**5.6**	**6.6**	**6.2**	**5.2**		**4.4**	**3.5**	
Total gross financing need (billions of U.S. dollars)	-0.3	-0.4	-0.3			-0.2	0.0	0.0	-0.2	-0.2	-0.3		-0.1	-1.4	
Noninterest current account deficit that stabilizes debt ratio	3.3	6.7	6.6			7.0	7.7	7.7	7.0	7.0	6.6		6.5	5.3	
Key macroeconomic assumptions															
Real GDP growth (in percent)	6.1	7.1	7.3	8.0	3.6	7.0	7.2	7.3	7.3	7.5	7.5	7.3	7.1	7.0	7.1
GDP deflator in U.S. dollar terms (change in percent)	1.9	7.0	2.1	4.4	3.7	2.8	1.6	1.8	1.8	1.7	1.8	1.9	1.7	1.8	1.7
Effective interest rate (percent) 6/	1.1	1.2	1.1	1.1	0.1	1.3	1.6	1.4	1.9	1.3	0.9	1.4	1.2	1.3	1.2
Growth of exports of G&S (U.S. dollar terms, in percent)	22.8	33.8	17.3	14.7	14.3	15.4	13.6	11.7	10.9	10.8	10.3	12.1	10.4	10.8	10.5
Growth of imports of G&S (U.S. dollar terms, in percent)	19.2	33.3	16.2	14.5	12.5	14.9	12.5	9.7	9.8	10.2	10.0	11.2	10.1	10.5	10.2
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	45.8	46.6	47.2	46.8	46.6	45.7	46.5	44.0	42.4	43.7
Government revenues (excluding grants, in percent of GDP)	13.1	13.1	15.2			14.5	15.1	15.6	16.1	16.6	17.1		18.6	20.6	19.1
Aid flows (in billions of U.S. dollars) 7/	0.8	0.7	0.7			0.9	0.8	0.8	0.8	0.9	0.9		0.8	1.1	
Of which: Grants	0.6	0.4	0.4			0.5	0.5	0.5	0.5	0.6	0.6		0.4	0.4	
Of which: Concessional loans	0.2	0.3	0.3			0.4	0.3	0.3	0.3	0.3	0.3		0.4	0.7	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			5.0	4.4	4.1	3.7	3.5	3.2		1.8	1.2	1.7
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			70.1	71.6	75.7	76.0	76.6	76.3		62.2	56.4	62.2
Memorandum items:															
Nominal GDP (billions of U.S. dollars)	11.3	12.9	14.1			15.5	16.9	18.5	20.2	22.1	24.2		37.3	87.5	
Nominal dollar GDP growth	8.1	14.5	9.5			10.0	9.0	9.3	9.2	9.4	9.4	9.4	8.9	8.9	9.0
PV of PPG external debt (in billions of U.S. dollars)			2.7			3.0	3.3	3.5	3.7	3.9	4.1		5.5	10.2	
(PVt-PVt-1)/GDPt-1 (in percent)						2.4	1.8	1.3	1.0	0.9	0.9	1.4	1.0	0.8	0.9
Gross workers' remittances (billions of U.S. dollars)	0.2	0.3	0.3			0.3	0.3	0.4	0.4	0.4	0.5		0.7	0.0	
PV of PPG external debt (in percent of GDP + remittances)	...	...	18.6			19.3	19.3	18.9	18.2	17.4	16.7		14.6	11.7	
PV of PPG external debt (in percent of exports + remittances)	...	...	29.8			29.5	28.4	27.1	25.7	24.3	23.1		19.4	13.2	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	1.0			1.1	1.2	1.2	1.5	1.4	1.2		1.1	0.8	

Sources: Cambodian authorities; and IMF staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

3/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

4/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

5/ Assumes that PV of private sector debt is equivalent to its face value.

6/ Current-year interest payments divided by previous period debt stock.

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 1b. Cambodia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013–33

(In percent)

	Projections							
	2013	2014	2015	2016	2017	2018	**2023**	2033
PV of debt-to GDP ratio								
Baseline	20	20	19	19	18	17	**15**	12
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013–33 1/	20	18	16	14	13	12	**6**	2
A2. New public sector loans on less favorable terms in 2013–33 /2	20	20	21	20	20	20	**19**	18
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014–15	20	20	20	19	19	18	**16**	12
B2. Export value growth at historical average minus one standard deviation in 2014–15 3/	20	24	31	30	29	28	**23**	14
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2014–15	20	20	20	19	18	17	**15**	12
B4. Net nondebt creating flows at historical average minus one standard deviation in 2014–15 4/	20	21	22	21	20	19	**17**	12
B5. Combination of B1-B4 using one-half standard deviation shocks	20	22	25	24	23	22	**18**	13
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	20	28	27	26	25	24	**21**	17
PV of debt-to-exports ratio								
Baseline	30	29	28	26	25	24	**20**	13
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013–33 1/	30	26	23	20	18	16	**8**	2
A2. New public sector loans on less favorable terms in 2013–33 /2	30	30	30	29	28	28	**26**	20
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014–15	30	29	28	26	25	24	**20**	13
B2. Export value growth at historical average minus one standard deviation in 2014–15 3/	30	40	57	54	51	48	**38**	20
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2014–15	30	29	28	26	25	24	**20**	13
B4. Net nondebt creating flows at historical average minus one standard deviation in 2014–15 4/	30	32	32	30	29	27	**22**	14
B5. Combination of B1-B4 using one-half standard deviation shocks	30	34	39	37	35	33	**27**	16
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	30	29	28	26	25	24	**20**	13
PV of debt-to-revenue ratio								
Baseline	136	131	123	115	107	100	**80**	57
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013–33 1/	136	118	102	89	78	69	**33**	8
A2. New public sector loans on less favorable terms in 2013–33 /2	136	136	132	127	121	116	**104**	87
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014–15	136	134	129	121	112	105	**84**	60
B2. Export value growth at historical average minus one standard deviation in 2014–15 3/	136	160	202	188	173	161	**122**	69
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2014–15	136	131	125	117	108	101	**82**	58
B4. Net nondebt creating flows at historical average minus one standard deviation in 2014–15 4/	136	142	142	132	122	114	**90**	59
B5. Combination of B1-B4 using one-half standard deviation shocks	136	146	159	148	137	128	**99**	62
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	136	185	174	163	151	141	**113**	80

Table 1b. Cambodia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013–33 (concluded)

(In percent)

	Projections							
	2013	2014	2015	2016	2017	2018	**2023**	2033
Debt service-to-exports ratio								
Baseline	1	1	1	2	1	1	**1**	1
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013–33 1/	1	1	1	1	1	1	**1**	0
A2. New public sector loans on less favorable terms in 2013–33 /2	1	1	1	2	2	1	**1**	1
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014–15	1	1	1	2	1	1	**1**	1
B2. Export value growth at historical average minus one standard deviation in 2014–15 3/	1	1	2	2	2	2	**2**	1
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2014–15	1	1	1	2	1	1	**1**	1
B4. Net nondebt creating flows at historical average minus one standard deviation in 2014–15 4/	1	1	1	2	2	1	**1**	1
B5. Combination of B1-B4 using one-half standard deviation shocks	1	1	1	2	2	2	**2**	1
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	1	1	1	2	1	1	**1**	1
Debt service-to-revenue ratio								
Baseline	5	6	6	7	6	5	**4**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013–33 1/	5	6	5	6	5	4	**2**	1
A2. New public sector loans on less favorable terms in 2013–33 /2	5	6	6	7	7	6	**6**	5
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014–15	5	6	6	7	7	5	**5**	4
B2. Export value growth at historical average minus one standard deviation in 2014–15 3/	5	6	6	8	8	6	**8**	5
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2014–15	5	6	6	7	6	5	**4**	4
B4. Net nondebt creating flows at historical average minus one standard deviation in 2014–15 4/	5	6	6	7	7	5	**5**	4
B5. Combination of B1-B4 using one-half standard deviation shocks	5	6	6	7	7	6	**6**	4
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	5	8	8	9	9	7	**6**	5
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	43	43	43	43	43	43	**43**	43

Sources: Cambodian authorities; and IMF staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), noninterest current account in percent of GDP, and nondebt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 2a. Cambodia: Public Sector Debt Sustainability Framework, Baseline Scenario, 2010–33

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate					Projections				
	2010	2011	2012	Average 1/	Standard Deviation 1/	2013	2014	2015	2016	2017	2018	2013–18 Average	2023	2033	2019–33 Average
Public sector debt 2/	29.3	30.3	32.1			33.3	33.5	32.7	31.8	30.4	29.1		25.9	22.5	
Of which: Foreign-currency denominated	28.7	29.7	31.6			32.8	33.1	32.3	31.4	30.1	28.8		25.0	19.0	
Change in public sector debt	0.2	1.0	1.8			1.2	0.2	-0.7	-1.0	-1.3	-1.4		-0.4	-0.1	
Identified debt-creating flows	-0.6	1.4	0.8			0.5	-0.2	-1.2	-1.7	-2.1	-2.3		-0.4	0.6	
Primary deficit	2.3	4.0	3.2	1.9	1.9	2.7	2.1	1.2	0.5	0.3	0.1	1.1	1.5	2.2	1.5
Revenue and grants	18.0	16.3	17.9			17.7	18.0	18.5	18.8	19.2	19.5		19.5	21.1	
Of which: Grants	4.9	3.2	2.8			3.2	2.9	2.9	2.7	2.6	2.4		1.0	0.5	
Primary (noninterest) expenditure	20.3	20.3	21.2			20.3	20.0	19.7	19.2	19.5	19.6		21.0	23.3	
Automatic debt dynamics	-2.9	-2.6	-2.4			-2.1	-2.3	-2.4	-2.2	-2.4	-2.4		-1.9	-1.6	
Contribution from interest rate/growth differential	-1.7	-2.0	-2.1			-2.2	-2.3	-2.4	-2.3	-2.4	-2.4		-1.9	-1.6	
Of which: Contribution from average real interest rate	0.0	0.0	-0.1			-0.1	-0.1	-0.1	0.0	-0.2	-0.3		-0.2	-0.1	
Of which: Contribution from real GDP growth	-1.7	-1.9	-2.1			-2.1	-2.2	-2.3	-2.2	-2.2	-2.1		-1.7	-1.5	
Contribution from real exchange rate depreciation	-1.2	-0.7	-0.3			0.1	0.0	0.0	0.1	0.1	0.0		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g., bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	0.8	-0.4	1.0			0.6	0.5	0.5	0.8	0.7	0.9		0.0	-0.6	
Other Sustainability Indicators															
PV of public sector debt	...	...	19.5			20.2	20.1	19.6	18.9	18.0	17.3		15.9	15.2	
Of which: Foreign-currency denominated	...	...	19.0			19.7	19.7	19.3	18.5	17.7	17.0		14.9	11.7	
Of which: External	...	...	19.0			19.7	19.7	19.3	18.5	17.7	17.0		14.9	11.7	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 3/	3.5	5.2	4.4			3.8	3.3	2.4	1.9	1.6	1.2		2.5	3.0	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	108.9			114.1	112.2	106.0	100.5	93.9	88.8		81.3	72.2	
PV of public sector debt-to-revenue ratio (in percent)	...	...	128.8			139.1	133.7	126.0	117.5	108.6	101.3		85.6	74.0	
Of which: External 4/	...	...	125.4			135.9	130.9	123.5	115.3	106.7	99.7		80.3	57.0	
Debt service-to-revenue and grants ratio (in percent) 5/	3.8	4.2	3.8			4.2	4.8	4.7	5.8	5.4	4.5		4.3	3.8	
Debt service-to-revenue ratio (in percent) 5/	5.2	5.2	4.4			5.1	5.8	5.6	6.8	6.2	5.2		4.5	3.9	
Primary deficit that stabilizes the debt-to-GDP ratio	2.1	3.0	1.4			1.5	1.9	1.9	1.4	1.6	1.5		1.8	2.2	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	6.1	7.1	7.3	8.0	3.6	7.0	7.2	7.3	7.3	7.5	7.5	7.3	7.1	7.0	7.1
Average nominal interest rate on forex debt (in percent)	1.1	1.2	1.1	1.1	0.1	1.3	1.6	1.4	1.9	1.3	0.9	1.4	1.2	1.3	1.2
Average real interest rate on domestic debt (in percent)	-2.7	-3.1	-1.1	-4.1	2.8	-2.8	-2.8	-2.8	-2.7	-2.6	-2.5	-2.7	-0.3	0.2	-0.4
Real exchange rate depreciation (in percent, + indicates depreciation)	-4.5	-2.5	-1.0	-2.8	2.5	0.2	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	3.0	3.4	1.3	4.6	3.2	3.1	3.1	3.1	3.0	2.9	2.8	3.0	2.6	2.8	2.7
Growth of real primary spending (deflated by GDP deflator, in percent)	0.1	0.1	0.1	0.1	0.1	0.0	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Grant element of new external borrowing (in percent)	...	...	...	...	...	45.8	46.6	47.2	46.8	46.6	45.7	46.5	44.0	42.4	...

Sources: Cambodian authorities; and IMF staff estimates and projections.

1/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
2/ The public sector debt represents general government gross debt.
3/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.
4/ Revenues excluding grants.
5/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

Table 2b. Cambodia: Sensitivity Analysis for Key Indicators of Public Debt, 2013–33
(In percent)

	Projections							
	2013	2014	2015	2016	2017	2018	2023	2033
PV of debt-to-GDP ratio								
Baseline	20	20	20	19	18	17	16	15
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	20	20	20	20	19	20	20	17
A2. Primary balance is unchanged from 2013	20	20	21	21	21	22	24	24
A3. Permanently lower GDP growth 1/	20	20	20	20	19	19	21	31
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014–15	20	21	21	21	21	20	21	23
B2. Primary balance is at historical average minus one standard deviations in 2014–15	20	21	22	21	20	19	17	16
B3. Combination of B1-B2 using one half standard deviation shocks	20	21	21	21	20	19	18	18
B4. One-time 30 percent real depreciation in 2014	20	28	26	25	23	22	18	15
B5. 10 percent of GDP increase in other debt-creating flows in 2014	20	26	25	24	23	22	19	17
PV of debt-to-revenue ratio 2/								
Baseline	114	112	106	101	94	89	81	72
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	114	111	106	105	102	101	101	79
A2. Primary balance is unchanged from 2013	114	114	112	113	112	113	123	112
A3. Permanently lower GDP growth 1/	114	113	108	104	100	97	106	148
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014–15	114	116	115	111	107	103	107	110
B2. Primary balance is at historical average minus one standard deviations in 2014–15	114	117	119	112	105	99	89	76
B3. Combination of B1-B2 using one half standard deviation shocks	114	115	115	110	103	99	94	87
B4. One-time 30 percent real depreciation in 2014	114	154	141	131	120	111	91	73
B5. 10 percent of GDP increase in other debt-creating flows in 2014	114	143	135	127	119	112	99	81
Debt service-to-revenue ratio 2/								
Baseline	4	5	5	6	5	5	4	4
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	4	5	5	6	5	5	5	4
A2. Primary balance is unchanged from 2013	4	5	5	6	6	5	5	6
A3. Permanently lower GDP growth 1/	4	5	5	6	6	5	5	6
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014–15	4	5	5	6	6	5	5	5
B2. Primary balance is at historical average minus one standard deviations in 2014–15	4	5	5	6	6	5	5	4
B3. Combination of B1-B2 using one half standard deviation shocks	4	5	5	6	6	5	5	5
B4. One-time 30 percent real depreciation in 2014	4	6	7	8	8	7	6	6
B5. 10 percent of GDP increase in other debt-creating flows in 2014	4	5	5	7	6	5	6	4

Sources: Cambodian authorities; and IMF staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND

CAMBODIA

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

January 9, 2014

Prepared By
Asia and Pacific Department
(In consultation with other departments)

CONTENTS

FUND RELATIONS

(As of November 30, 2013)

Membership Status

Joined December 31, 1969; accepted the obligations under Article VIII, Sections 2, 3, and 4 on January 1, 2002.

General Resources Account:	**SDR Million**	**Percent Quota**
Quota	87.50	100.00
Fund holdings of currency (Exchange Rate)	87.50	100.00
Reserve Tranche Position	0.00	0.00

SDR Department:	**SDR Million**	**Percent Allocation**
Net cumulative allocation	83.92	100.00
Holdings	68.36	81.46

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF [1/]	Oct. 22, 1999	Mar. 05, 2003	58.50	58.50
ECF [1/]	May 06, 1994	Aug. 31, 1997	84.00	42.00

[1/] Formerly PRGF

Projected Payments to the Fund [2/]

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2013	2014	2015	2016	2017
Principal					
Charges/Interest	0.00	0.02	0.02	0.02	0.02
Total	0.00	0.02	0.02	0.02	0.02

[2/] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Multilateral Debt Relief Initiative

As part of the Multilateral Debt Relief Initiative (MDRI), the IMF Executive Board on January 5, 2006 approved relief on 100 percent of debt incurred by Cambodia to the IMF before January 1, 2005. This resulted in the forgiving of all of Cambodia's outstanding debt to the IMF, a total of SDR 56.8 million (about US$82 million). The authorities intend to spend the resources over a number of years, initially on rural irrigation projects. The National Bank of Cambodia (NBC) transferred the full MDRI proceeds to the Ministry of Economy and Finance effective March 2006.

Safeguards Assessment

A voluntary safeguards assessment of the NBC was completed in January 2010 at the request of the authorities, which updated the previous March 2004 voluntary assessment. The update assessment found that the NBC had taken steps to strengthen aspects of its safeguards framework; however, important recommendations proposed in 2004 were still outstanding, and some new risks had emerged in the area of external audit.

Exchange Rate Arrangement and Payments System

Cambodia's exchange regime is classified as *other managed*. The *de jure* regime is a *managed float*. The official exchange rate, which is expressed in riels per U.S. dollar, applies to all official external transactions conducted by the central government and state enterprises, and is used for accounting purposes by the NBC. It is determined by the foreign exchange market, with the official rate adjusted to be within 1 percent of the market rate on a daily basis.

Cambodia accepted the obligations of Article VIII, Sections 2, 3, and 4 on January 1, 2002. Cambodia maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions.

Article IV Consultation

Cambodia is on the standard 12-month Article IV consultation cycle. The last Article IV consultation discussions were held in Phnom Penh during September 25-October 5, 2012. The Executive Board approved the staff report on December 3, 2012.

Financial Sector Assessment Program (FSAP)

The joint IMF-World Bank FSAP mission took place in March 2010 and the assessment was completed in October 2010.

Technical Assistance

Technical assistance is currently focused on bank supervision, monetary operations, public financial management, tax and customs administration, tax policies, macro-fiscal and revenue forecasting, financial sector supervision, and macro-financial statistics. Delivery is through a resident advisor at the NBC, peripatetic experts, and short-term visits from headquarters.

Resident Representative

The IMF Resident Representative in Phnom Penh (Mr. Faisal Ahmed) was appointed in July 2011. From July 2010 to June 2011, the IMF's Resident Representative for Indonesia (Mr. Milan Zavadjil) also assumed the responsibilities for the IMF office in Cambodia.

IMF-WORLD BANK COLLABORATION

(October 2013)

The Bank and the IMF country teams for Cambodia, led by Mr. Mathew Verghis (Sector Manager, EASPR) and Ms. Meral Karasulu (IMF Mission Chief for Cambodia), maintain a close working relationship and have an active dialogue on a range of macroeconomic and structural issues.

Recent key areas of cooperation and coordination include:

- **Macroeconomic policy advice to the authorities.** The IMF and the World Bank staffs have consulted each other on key macroeconomic policy messages to the authorities to avoid sending conflicting messages. Bank staff share and discuss the review of macroeconomic developments and country pages. IMF staff share policy notes and analytical background notes related to Article IV consultation missions.

- **Financial sector reform and FSAP**. The World Bank and the IMF teams have worked closely together while undertaking the 2010 FSAP. In line with the FSAP recommendations, technical assistance missions are now ongoing and close coordination between the IMF and the World Bank continues.

- **Public financial management and tax and customs administration reform.** Both institutions are working to strengthen coordination of work on public financial management including tax and customs administration reform. Both teams share as much as possible the work done in this area. Both teams also worked closely together on customs modernization and reform.

- **Article IV consultations.** IMF Article IV consultations regularly share their macroeconomic data with the World Bank and hold working sessions to try and reconcile macroeconomic data sets. The collaboration is closest on the debt sustainability analysis, a joint product, but extends more broadly into other areas of the consultation as well. World Bank staff are also invited to and do participate in some of the key meetings. The IMF also participated in some of the WB TA missions on contingent liabilities. Both institutions are considering using the TA mission findings to further strengthen the DSA analysis.

- **Structural reforms.** The IMF staff and the World Bank teams have worked together to share views on a range of other issues, including structural reforms for improving investment climate, economic diversification, customs modernization, and rural development.

Based on the above partnership, the World Bank and the IMF share a common view about Cambodia's macroeconomic and structural reform priorities. These include:

- **Sustaining growth.** Economic activity remains strong despite some moderation in recent months and the outlook remains broadly positive but is subject to some downside risks, including prolonged political stalemate. Sustaining growth would require appropriate fiscal consolidation and prudent management of the banking sector risks. Improving the business climate, reducing infrastructure and skills bottlenecks, promoting private sector development and economic diversification, improving governance and the delivery of public services and supporting rural development continue to be essential to promote self-sustaining and inclusive growth.

- **Managing public finances and debt.** Fiscal policy remains the main instrument for macroeconomic management given high dollarization. Prudent fiscal management is, therefore, critical and needs to be underpinned by improved revenue collection, prioritized spending, and better monitoring of contingent liabilities, including through the budgetary and public debt management framework and further progress in budgetary transparency.

- **Safeguarding financial system stability and improving the effectiveness of monetary policy.** Implementing the key recommendations of the 2010 FSAP remains critical to safeguarding financial stability. These include implementing a moratorium on new bank licenses, strengthening coordinated supervision, developing the foreign exchange market, and improving the supervisory capacity. Financial stability risks from the buoyant real estate markets need to be managed through strengthened supervision and improved data collection. Developing an interbank market remains a necessary step for a transition to more effective and market based monetary policy operations.

- **Improving governance.** Both the World Bank and IMF have stressed the critical role of governance in improving the quality of service delivery and fostering private sector development, which is the engine of growth.

The teams are committed to continue the close cooperation going forward. The table below details the specific activities planned by the two country teams over the next 12-month period along with their expected deliveries.

Cambodia: Joint Managerial Action Plan, 2013–14

Title	Products	Provisional and Actual Timing of Missions	Expected and Actual Delivery Date
	A. Mutual Information on Relevant Work Programs		
The World Bank's Work program in the next 12 Months	**Macroeconomic monitoring** • Semi-annual updates • Cambodia Economic update	Ongoing	Once every six months: tentatively in April and Oct 2014
	Financial sector • FSAP follow-up technical assistance to improve accounting and auditing practices for financial institutions. FSAP follow-up technical assistance on crisis preparedness and crisis management framework. • FSAP follow-up technical assistance on regulatory framework.	Ongoing	Two or three missions a year.
	Public sector management • Public Financial Management Reform Program (PFMRP) • Public administration reform (PAR) potential support envisioned.	Ongoing	PFMAP closes in Nov 2013 New PFMMP to be established before the end of 2013
	Trade • Trade Development Support Program • Connectivity • Customs modernization and reform	On going	
The IMF's Work Program in the next 12 Months	**Macroeconomic policy analysis and advice** • 2014 Article IV consultation • Policy notes on request	3rd Quarter 2014 Ongoing	December 2014
	Technical assistance • Fiscal sector: Cash management, government accounting, budget classification, tax policy, tax administration, macro-fiscal capacity building, PFM regional advisor and advisor to the National Treasury • Financial sector: FSAP follow-up work, resident banking supervision advisor, consolidated supervision, foreign exchange market, liquidity management, data improvement • Statistics: National accounts, price, balance of payments	Ongoing	
	B. Agreement on Joint Products and Missions		
Joint Products in the next 12 Months	• **Debt sustainability analysis**	2014 Article IV consultations	During Article IV consultations

RELATIONS WITH THE ASIAN DEVELOPMENT BANK

(October 2013)

From 1992 through September 2013, the Asian Development Bank (AsDB) approved funding of US$1,827.97 million including 70 loan projects and programs of US$1,572.26 million with low interest, and 21 Asian Development Fund (ADF) grants of US$255.71 million to Cambodia for structural reform programs and development projects. To date, 46 loan projects for a total of US$964.94 million and 10 ADF grants of US$85.51 million have been completed.

The sector composition of the active loan/grant portfolio of US$ 819.92 as of September 2013 is: (i) agriculture and natural resources, US$245.5 million; (ii) education, US$81.6 million; (iii) energy, US$65.0 million; (iv) finance, US$15.0; (v) health, nutrition, and social protection, US$10.0 million; (vi) industry and trade, US$11.0 million; (vii) multi-sector (flood reconstruction), US$55.0 million; (viii) public sector management, US$78.56 million; (ix) transport and communication, US$200.26 million; and (x) water supply, sanitation, and waste management, US$28.0 million.

ADB Cambodia Country Partnership Strategy (CPS), 2011–2013, endorsed by the Board on 5 July 2011, supports the Government's development priorities and is aligned closely with the core operational areas and drivers of change of ADB's Strategy 2020. It aims to reduce poverty through projects and programs to promote inclusive economic growth and social development and equity. The CPS continues a geographical focus on the Tonle Sap Basin, one of the poorest, most environmentally sensitive regions of Cambodia, and strengthens integration of Cambodia into the Greater Mekong Subregion (GMS).

The 2011–2013 CPS focuses on five priority sectors—transport (rural and provincial roads), water supply, sanitation and urban development, agriculture and natural resources (agriculture commercialization and irrigation support), education (lower secondary schools and vocational training), and finance (banking regulation, SME finance, and microfinance), supported by ongoing activities in public sector management (public financial management, and deconcentration and decentralization). The program responds to the country challenges of climate change, decentralization, rural-urban linkages, and regional cooperation. The program also incorporates five key cross-cutting themes into all activities—private sector development, governance, gender equity, knowledge solutions, and partnerships.

The 3-year time period for the CPS was determined jointly with the Government to align with Cambodia's strategic planning cycle, and has been characterized by Government officials as of great importance for the evolution of the Cambodian economy. Given this development context and the relatively short three-year planning horizon, the CPS implements a realistic, focused and aligned strategy, consistent with emerging government priorities. The CPS supports the Government with the preparation of the National Strategic Development Plan 2014–2018 through analytical sector and thematic support. This work will also support the preparation of the CPS 2014–2018, for Board endorsement in June 2014.

In finance, the AsDB will continue its leading role in the financial sector to: (i) consolidate the banking sector reforms achieved to date, improve financial infrastructure including the national clearing system and the credit information center covering both banks and microfinance institutions, and support the strengthening of supervision capacity of the National Bank of Cambodia including AML/CFT measures; (ii) expand the insurance business for life insurance; and (iii) facilitate capital market development for more efficient domestic resource mobilization. The AsDB supports implementation of the Financial Sector Development Strategy (2011–2020). The CPS also includes support for government measures to deepen public sector management reform and strengthen anticorruption measures. For decentralization, the AsDB is supporting policy and capacity development in the transfer of functions to sub-national administrations, fiscal decentralization (including public financial management capacity development), and sub-national financing mechanisms such as the Sub-National Investment Facility. Regarding public financial management, AsDB has supported budget preparation and execution, financial management, internal control, procurement, and M&E to improve accountability in public expenditures for selected ministries[1] as well as the public debt management capacity of MEF. AsDB has also supported the external audit capacity of the National Audit Authority.

In private sector development, the AsDB has assisted the government's efforts in: (i) promoting competition in domestic markets through competition policy and law, and regulatory efficiency through capacity development to institutionalize regulatory impact assessment system in the government; (ii) supporting trade policy reforms such as through strengthening of institutional and regulatory framework for effective food safety management systems, and capacity and awareness of the systems; and (iii) enhancing the environment for public-private partnership and stimulating PPP opportunities. Assistance has also been provided to help the government improve its competitiveness at the GMS level through reducing border-related costs and distortions; improving physical infrastructure; enhancing transport and trade facilitation, including promoting compliance with SPS standards. Later interventions would be more focused on improving the trade facilitation and logistical links to the sub-region as systems and procedures become more developed and integrated.

[1] Ministry of Agriculture, Forestry and Fisheries; Ministry of Rural Development; and Ministry of Water Resources and Meteorology.

Asian Development Bank: Loan/Grant Commitments and Disbursements to Cambodia, 1992–2013

(In millions of U.S. dollars, as of September 30, 2013)

		Loan/Grant Approvals	Contract Awards/ Commitment	Disbursements
1	1992	67.7	0.0	0.0
2	1993	0.0	4.4	5.4
3	1994	28.2	35.9	12.2
4	1995	45.1	28.1	35.9
5	1996	105.0	15.3	32.1
6	1997	0.0	41.5	10.7
7	1998	40.0	29.1	29.3
8	1999	88.0	17.0	26.2
9	2000	109.6	114.4	50.8
10	2001	75.2	40.7	48.3
11	2002	116.5	64.4	78.9
12	2003	98.3	61.9	73.3
13	2004	65.0	62.4	76.7
14	2005[1]	52.0	96.4	84.5
15	2006[2]	69.8	44.7	55.8
16	2007[3]	64.1	85.8	62.1
17	2008[4]	84.1	128.3	138.9
18	2009[5]	144.5	62.3	84.6
19	2010[6]	160.8	66.0	73.5
20	2011[7]	70.0	143.8	128.6
21	2012 [8]	316.91	142.5	94.5
22	2013 [9]	111.5	144.3	136.5
	TOTAL:	1,912.3	1,429.2	1,343.6

[1] US$10 million loans and US$42 million grants approved in 2005.

[2] US$62 million loans and US$7.8 million grants approved in 2006.

[3] US$27.1 million loans and US$37 million grants approved in 2007.

[4] US$53.8 million loans and US$30.3 million grants approved in 2008.

[5] US$71.7 million loans and US$72.8 million grants approved in 2009.

[6] US$95.0 million loans and US$65.8 million grants approved in 2010.

[7] US$67.0 million loans and US$3.0 million grants approved in 2011.

[8] US$275.46 million loans and US$41.45 million grants approved in 2012.

9 US$70 million loans and $25.21 million loans approved in 2013. As of 30 September 2013, actual contract awards and disbursements are $111.81 and 136.49 million respectively.

STATISTICAL ISSUES

(November 2013)

Assessment of Data Adequacy for Surveillance

General. Data provision is broadly adequate for surveillance. Extensive technical assistance (TA) has been provided by the IMF, United Nations Development Programme, Asian Development Bank (AsDB), and World Bank, as well as by bilateral partners, leading to substantial capacity improvements. Currently, Cambodia is participating in Statistics Department's (STA's) project on the Implementation of the System of National Accounts and International Comparison Program, funded by the government of Japan. This project will provide TA to build statistical capacity and improve both national accounts and price statistics. Despite the progress made in improving data statistics, several shortcomings continue to hamper timely and comprehensive analysis.

National accounts. Despite improvements in recent years, weaknesses remain in the quality and timeliness of national accounts data. The GDP estimates remain hampered by the lack of comprehensive and reliable source data, in part due to resource constraints and weak data collection techniques. Statistics Sweden has been assisting the National Institute of Statistics (NIS) for improving basic statistics for national accounts compilation. A TA mission that visited Cambodia in November 2011 assessed the methodologies used to compile national accounts and noted inconsistencies in GDP estimates in current and constant prices, mainly for the period 2007–2010, and provided guidance for revising the GDP series. The November 2011 mission also provided support in developing the quarterly national accounts estimates. A mission to assess the progress in implementing past TA recommendations is scheduled for February 2014.

Price statistics. The compilation of the consumer price index (CPI) suffers from insufficient coverage. An updated CPI series was introduced starting in April 2012. Geographic coverage of the series has been expanded to include Phnom Penh plus five provinces. Statistics Sweden continues to provide assistance with the household budget survey and the CPI, but the project with Sweden is expected to end in December 2013. An STA TA mission visited Phnom Penh in April 2012 to assist with improving the CPI. The authorities indicated a need for assistance with developing a producer price index (PPI), but no funds have been allocated to support the compilation of PPI.

Government finance statistics (GFS). The Ministry of Finance and Economy began implementing reforms to the government accounting system and budgetary nomenclature in 2007, based on the *Government Finance Statistics Manual (GFSM) 2001*, with the assistance of the IMF. In addition, several STA missions have assisted with GFS compilation procedures within the GSFM 2001 framework. In 2011, Cambodia agreed to participate in the GFS project funded by the Government of Japan. As a result, the authorities have benefited from two TA missions in 2012 and 2013 to assist them in the compilation and implementation of GFS. The later has also worked on establishing a bridge between the government's new chart of accounts (COA, approved by the authorities in February 2013 and the GSFM 2001 classifications so that accounting records can be used as source data in compiling GFS, with the objective of including the GFS in the new Financial Management Integration System (FMIS). However, the coverage is limited and focusing on the operations of the budget only, and is not fully integrating activities related to disbursement of external loans and grants.

Monetary and financial statistics. The NBC compiles the balance sheet and survey for the central bank and other depository institutions in accordance with the IMF's *Monetary and Financial Statistics Manual.* Since August 2005, the NBC has reported monthly monetary and financial statistics to STA using the Standardized Report Forms. The NBC received TA during the FSAP on the compilation of financial soundness indicators (FSIs). The NBC now compiles monthly core FSIs and shares them with IMF staff regularly.

External sector statistics. Cambodia is part of the Asian module of the Project on the Improvement of External Sector Statistics (ESS) in the Asia Pacific Region (funded by the government of Japan launched in October 2012), which aims to improve the accuracy, availability, comparability, and timeliness of ESS in the region. The project consists mainly of short-term TA missions in three years. The first TA mission to Cambodia in April 2013 prepared the foundation to improve and update the ESS compilation methodology and techniques for implementing the sixth edition of the *Balance of Payments and International Investment Position Manual* (*BPM6*). The NBC has made progress in improving the compilation system following the 2012 balance of payments TA mission. The most significant accomplishments include: (i) implementing an updated International Transactions Reporting System (ITRS) coding list aligned with *BPM6* requirements; (ii) reducing the reporting threshold to US$ 5,000 within the ITRS to improve coverage; and (iii) developing a preliminary questionnaire for the direct investment (DI) survey. However, further actions are needed in the following areas: (i) improvement of cooperation and data-sharing between government agencies, (ii) establishing survey on FDI positions and recording flows, including FDI inflows related to hydropower projects and off-shore oil exploration; (iii) improvement of compilation techniques of trade and external debt data; (iii) better data dissemination on NBC's website. The second TA mission in November 2013 reviews progress in the implementation of the action plan agreed during the April 2013 TA mission; and focus on the trial run of the FDI survey, the improvement of data collection and compilation of goods for processing, travel, transportation and technical assistance, and further improvement of the ITRS. Additionally, the mission assesses the consistency between ESS and monetary and financial statistics.

Data Standards and Quality

Cambodia participates in the IMF's General Data Dissemination System. No data ROSC are available.

Cambodia: Table of Common Indicators Required for Surveillance

(As of December 2013)

	Date of latest Observation	Date Received	Frequency of Data[1]	Frequency of Reporting[1]	Frequency of Publication[1]
Exchange Rates	12/20/ 2013	12/22/ 2013	D	D	W
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	12/ 2013	12/2013	Biweekly	Biweekly, 4 week lag	N/A
Reserve/Base Money	10/2013	11/2013	M	M, 4–6 week delay	M
Broad Money	10/2013	11/2013	M	M, 4–6 week delay	M
Central Bank Balance Sheet	10/2013	11/2013	M	M, 4–6 week delay	M
Consolidated Balance Sheet of the Banking System	10/2013	11/2013	M	M, 4–6 week delay	M
Interest Rates[3]	10/2013	12/2013	M	M, 4–6 week lag	M
Consumer Price Index	10/2013	11/2013	M	M, 2–4 week lag	M
Revenue, Expenditure, Balance and Composition of Financing[4]—General Government[5]	8/2013	11/2013	M	M, 4–6 week lag	M
Revenue, Expenditure, Balance and Composition of Financing[4]—Central Government	8/2013	11/2013	M	M, 4–6 week lag	M
Stocks of Central Government and Central Government-Guaranteed Debt[6]	9/2013	11/2013	M	M, 3 month lag	M
External Current Account Balance	6/2013	9/2013	Q	Q, 3 month lag	Q
Exports and Imports of Goods and Services	10/2013	12/2013	M	M, 4–6 week lag	M
GDP/GNP	2012	5/2013	A	A, 6 month lag	A
Gross External Debt	9/2013	11/2013	M	M, 3 month lag	M
International Investment Position[7]	06/2013	9/2013	Q	Q, 3 month lag	Q

[1] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I), and Not Available (N/A).
[2] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[3] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[4] Foreign, domestic bank, and domestic nonbank financing.
[5] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[6] Including currency and maturity composition.
[7] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

MAIN WEBSITES OF DATA

National Bank of Cambodia (www.nbc.org.kh)

Exchange rates
Balance of payments
Interest rates
Monetary survey
Credit granted by deposit money banks and nonbank financial institutions

Ministry of Economic and Finance (www.mef.gov.kh)

Government budget
Fiscal revenue, expenditure, and financing

National Institute of Statistics (www.nis.gov.kh)

Consumer Price Index
National accounts
Population census
Labor force survey
Socioeconomic survey
Household survey

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International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2013 Article IV Consultation with Cambodia

On January 27, 2014, the Executive Board of the International Monetary Fund (IMF) concluded the 2013 Article IV consultation[1] with Cambodia, and considered and endorsed the staff appraisal without a meeting.[2]

Economic activity remained strong in 2013 driven by robust exports, with garment exports helped by preferential access to European Union, and tourism with more diversified destinations. Real estate and construction also expanded rapidly supported by fast credit growth. Foreign direct investment (FDI) remained strong partly driven by factories relocating from China and Vietnam. Nonetheless, staff estimates real GDP growth to remain at 7 percent in 2013 due to the sluggish global economic recovery, the recent floods, and the slowdown in economic activity during the election period.

Private sector credit has been growing by about 30 percent (year-on-year) on average in the last three years driven mainly by ample liquidity, including bank funding from abroad, and

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] Article IV consultations are concluded without a Board meeting when the following conditions apply: (i) there are no acute or significant risks, or general policy issues requiring Board discussion; (ii) policies or circumstances are unlikely to have significant regional or global impact; (iii) in the event a parallel program review is being completed, it is also being completed on a lapse-of-time basis; and (iv) the use of Fund resources is not under discussion or anticipated.

heightened competition in the banking system. In the process, the loan-to-deposit (LTD) ratio trended upwards to over 100 percent and credit-to-GDP ratio nearly doubled to 40 percent diverging from past trends of sustainable financial deepening. The National Bank of Cambodia raised the reserve requirements on foreign currency deposits in September 2012 by ½ percentage points (ppt) to 12½ percent, but bank funding from abroad is not subject to any prudential limits. Notwithstanding the rapid credit growth, inflationary pressures eased due to moderating commodity prices. As a result headline inflation is estimated to average around 3 percent in 2013 once the impact of the recent floods on food prices subsides.

The current account deficit including official transfers is expected to stay flat at around 8½ percent of GDP in 2013 owing to strong but moderating imports, and remain fully financed by FDI and official loans. The deficit is projected to decline to 5½ percent of GDP over the medium term with improved competitiveness and diversification of exports, and lower imports after the completion of large power projects. Gross official reserves stood at US$3.6 billion in November, about 3½ months of prospective imports, and this reserve coverage appears to be adequate considering the long-term nature of Cambodia's external debt, although the high degree of dollarization would suggest that a higher level of reserves may be warranted. Consistent with this stable external position, the real effective exchange rate has remained stable since the 2008 global financial crisis.

Fiscal consolidation remained broadly on track. Buoyant domestic demand and revenue collection efforts improved revenue performance, while domestically-funded spending has been in line with the budget. As a result, the fiscal deficit, excluding grants, is expected to narrow further by about ½ ppt of GDP in 2013, leaving the stock of government deposits, the only fiscal buffers, at around 4¾ percent of GDP.

Executive Board Assessment

In concluding the 2013 Article IV consultation with Cambodia, Executive Directors endorsed staff's appraisal, as follows:

Economic activity remains strong driven by robust exports, tourism, and construction despite recent floods and some slowdown during the election. Growth is projected to pick up to 7¼ percent in 2014 and reach 7½ percent over the medium term along with global recovery, improvements in infrastructure, competitiveness, and investment climate. Inflation is expected to remain low in 2013–14 due to stable food and fuel prices. The external position is stable notwithstanding a declining reserve coverage of foreign currency deposits, and the real effective exchange rate appears to be in line with fundamentals.

The U.S. tapering and slow European growth could expose Cambodia's favorable outlook to downside risks. On the domestic side, rapid credit growth and emerging risks in a fast changing financial landscape could undermine financial stability; extreme weather conditions could affect agriculture and growth, and labor market instability could disrupt garment production and exports. Should these downside risks materialize, low fiscal buffers would require any additional expenditure to be allocated to high-impact development spending.

The progress made by the authorities in implementing past Article IV recommendations is welcome. They have improved revenue collection, formulated a revenue mobilization strategy (RMS), and strengthened public financial management (PFM), including improving the monitoring of contingent liabilities. They have also introduced negotiable certificates of deposit (NCDs) to help develop the interbank market, improved financial supervisory capacity, and established an initial memorandum of understanding (MoU) to establish a financial crisis management framework. Continuous progress in many of these areas remains necessary and is reflected in the priorities of this Article IV consultation.

The strong fiscal performance has continued, driven by substantial improvement in revenue collection and prudent spending. Fiscal consolidation should continue to rebuild government deposits—the only fiscal buffers—in view of the expected decline in grants, to maintain long-term fiscal and debt sustainability, including by making the planned wage increases in 2014 a part of a broader civil service reform. Successful implementation of RMS strategy and careful management of contingent liabilities are needed to rebuild and safeguard the fiscal space. Continuing with PFM reforms remains important to improve fiscal accountability and transparency.

Rapid credit growth, increasing foreign bank financing and the buoyancy of the real estate and construction sectors pose substantial macro financial risks especially in light of high dollarization, which limits monetary policy effectiveness and lender-of-last-resort capacity. Steps on multiple fronts are required to contain credit growth and safeguard financial stability. Strengthening liquidity supervision and redefining the liquid asset ratio (LAR) to better capture banks' true liquidity conditions will improve their resilience to shocks. Fully enforcing the reserve requirements to include foreign funds in the reserve base would help contain credit growth. Should this fail to slow credit growth macro prudential measures such as loan-to-value ratios (LTVs) and LTDs could be considered. Better monitoring of real estate developments, by collecting more data including on developer financing, is also needed to contain risks. Finally, the introduction of NCDs is a welcome first step toward market-based monetary operations. Going forward establishing an interbank and foreign exchange market would be needed to begin addressing dollarization, including by allowing more exchange rate flexibility.

The transition to risk-based supervision and the rapid expansion of the banking system continued to put additional burden on the supervisory capacity, and in this context, the 2010 FSAP recommendation of imposing a moratorium on new bank licenses remains appropriate. In view of the limited resources, focusing on key emerging risks would improve the supervisory effectiveness. Strengthening the financial crisis management framework is critical in managing systemic risks and minimizing potential fiscal costs. The signing of an initial MoU between supervisory agencies is welcome, and should be used to enhance cooperation at the policy and technical levels, and expedite preparation of a second MoU on crisis resolution.

Cambodia has made good progress in achieving the Millennium Development Goals and reduced poverty substantially. Continued improvements in human capital, including through education and training, infrastructure, and business climate are needed to promote inclusive and sustainable growth and further reduce poverty and income inequality. Plans to reduce regulatory impediments to doing business are welcome, while improving education outcomes to catch up with peers would take longer term efforts. Given the budgetary constraints, the near term priority would be improving efficiency and reallocating spending within the budget envelope. New initiatives, such as establishing a national training fund, could be considered over the medium term following the successful implementation of PFM reforms.

Good faith efforts to resolve external arrears are welcome and should continue.

Cambodia: Selected Economic Indicators, 2010–14

	2010	2011	2012	2013	2014
			Est.	Proj.	
GDP in constant prices (annual percent change)	6.1	7.1	7.3	7.0	7.2
(Excluding agriculture)	6.9	8.6	8.4	8.6	8.3
Inflation (end-year)	3.1	4.9	2.5	4.1	3.0
(Annual average)	4.0	5.5	2.9	2.9	3.4
Saving and investment balance (in percent of GDP)					
Gross national saving	13.4	13.9	14.8	14.9	13.1
Gross fixed investment	17.3	22.0	23.5	23.5	21.5
Money and credit (annual percent change)					
Broad money	20.0	21.4	20.9	17.7	23.7
Private sector credit	23.4	31.2	28.0	28.0	24.0
Public finance (in percent of GDP)					
Revenue	17.0	15.6	16.9	17.1	17.4
Expenditure	19.9	19.6	20.7	20.1	20.2
Net lending (+)/borrowing(-)	-2.8	-4.1	-3.8	-3.0	-2.8
Balance of payments (in millions of dollars, unless otherwise indicated)					
Exports, f.o.b.	3,884	5,219	6,016	6,992	8,002
Imports, f.o.b. 1/	-5,466	-7,260	-8,426	-9,789	-11,135
Current account (including official transfers)	-441	-1,040	-1,233	-1,339	-1,430
(In percent of GDP)	-3.9	-8.1	-8.7	-8.6	-8.4
Gross official reserves 2/	2,653	3,032	3,463	3,824	4,327
(In months of prospective imports)	3.7	3.6	3.6	3.6	3.7
External debt (in millions of dollars, unless otherwise indicated)					
Public external debt 3/	3,337	3,841	4,486	5,052	5,559
(In percent of GDP)	28.7	29.7	31.6	32.8	33.1
Memorandum items:					
Nominal GDP (in billions of riels)	47,102	52,154	56,711	62,559	69,195
(In millions of U.S. dollars)	11,255	12,890	14,118	…	…
Exchange rate (riels per dollar; period average)	4,185	4,046	4,017	…	…

Sources: Cambodian authorities; and IMF staff estimates and projections.

1/ From 2011, includes large power sector projects.

2/ Excludes unrestricted foreign currency deposits held as reserves at the National Bank of Cambodia; starting in 2009, includes the new SDR allocations made by the IMF.

3/ Debt owed to the Russian Federation is valued at 0.6 rubles per U.S. dollar with the standard 70 percent discount.